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United States Government Accountability Office
Washington, DC 20548

September 26, 2008

The Honorable Dianne Feinstein
Chairman
The Honorable Wayne Allard
Ranking Member
Subcommittee on Interior, Environment
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Norman D. Dicks
Chairman
The Honorable Todd Tiahrt
Ranking Member
Subcommittee on Interior, Environment
and Related Agencies
Committee on Appropriations
House of Representatives

Subject: *EPA's Execution of Its Fiscal Year 2007 New Budget Authority for the Enforcement and Compliance Assurance Program in the Regional Offices*

This letter responds to a mandate in House Report No. 110-187 that directed GAO to review the Environmental Protection Agency's (EPA) budget execution, specifically to identify the factors that influence EPA's operating plan allocations to the regional offices for a selected national program and to compare and contrast these operating plan allocations with EPA's reported obligations in the regional offices. After discussing this mandate with your offices, we focused our review on EPA's enforcement and compliance assurance program in the regional offices.

EPA, in partnership with state agencies, oversees compliance with 44 separate environmental programs. These programs regulate facilities—such as sewage treatment plants, petroleum refineries, and power plants—whose operations could pollute the air, water, and land, and thereby endanger public health and the environment. EPA and its regulatory partners are responsible for ensuring that these regulated facilities comply with program requirements and taking enforcement action in instances of noncompliance.

EPA administers its environmental enforcement and compliance assurance responsibilities through its headquarters Office of Enforcement and Compliance Assurance (OECA). While OECA provides overall direction on enforcement policies, and sometimes takes direct enforcement action, EPA's 10 regional offices are responsible for carrying out much of EPA's enforcement activities. The regional offices are responsible for monitoring regulated facilities' compliance, taking direct enforcement action, and providing compliance assistance and incentives to regulated facilities. Many federal environmental statutes, such as the Clean Air Act and the Clean Water Act, direct EPA to approve or authorize qualified states to implement and enforce environmental programs consistent with federal requirements. Over the years, states have increased their inspection and enforcement activities. Today most states have responsibility for multiple EPA programs. As a result, EPA regional offices are now more actively involved in coordinating with and conducting oversight of states that have been granted enforcement authority and providing guidance, training, and technical assistance. The regions are also responsible for implementing programs in Indian country and in states that do not have enforcement authority for particular programs.¹

On March 15, 2007, in accordance with the Revised Continuing Appropriations Resolution, 2007,² EPA finalized and submitted its fiscal year 2007 operating plan to the House and Senate Committees on Appropriations.³ This operating plan only took into account EPA's newly enacted budget authority for fiscal year 2007.⁴ The operating plan organized this budget authority by the agency's major program areas of responsibility called program/projects.⁵ EPA program/projects describe

¹"Indian country" includes all land within the limits of an Indian reservation under the jurisdiction of the United States government, all dependent Indian communities within the borders of the United States, and all Indian allotments.

²Pub. L. No. 110-5, § 113 (2007).

³EPA submitted its fiscal year 2007 operating plan to the House and Senate Committees on Appropriations, Subcommittees on Interior, Environment, and Related Agencies. This operating plan covered the full fiscal year 2007, October 1, 2006, to September 30, 2007. This operating plan described the fiscal year 2007 new budget authority from EPA's various appropriations. This included 2-year budget authority and no-year budget authority. Two-year budget authority enacted in fiscal year 2007 remained available for obligation until September 30, 2008, and no-year budget authority enacted in fiscal year 2007 remains available until expended.

⁴Budget authority refers to authority provided by federal law to a federal agency to enter into financial obligations that will result in immediate or future outlays involving federal government funds. This operating plan did not report unexpired balances of budget authority from prior year appropriations that were available for obligation in fiscal year 2007 (i.e. "carryover"). While we did not focus our review on these carryover amounts, Enclosure I provides a table that shows, for these four program/projects, reported fiscal year 2007 carryover from the Environmental Program and Management appropriation account was 2 percent (\$4.8 million) of the \$251.4 million in reported total fiscal year 2007 obligations from that appropriation account.

⁵In the plan, EPA allocated budget authority to each program/project from one or more of EPA's appropriation accounts.

what the agency does based on specific statutory authority (program) or what significant tasks or problems the agency is addressing (projects).

After discussing this mandate with your offices, we focused our review on EPA's fiscal year 2007 operating plan described above for the enforcement and compliance assurance program and the reported obligations of the budget authority allocated in that plan in EPA's Integrated Financial Management System (IFMS). The operating plan described the amounts EPA allocated to 14 program/projects to meet its enforcement and compliance assurance responsibilities.⁶ We also included a focus on whether EPA has implemented management systems to assess how regional offices meet the requirements of EPA's enforcement and compliance assurance program, and whether EPA has systems in place to effectively respond to changes in its enforcement responsibilities and recent fiscal constraints. We reported on some of these issues in 2001 and 2005, particularly the challenges that OECA and other EPA offices have faced in developing an effective data-driven resource allocation system.⁷ In this context, we reviewed (1) EPA's fiscal year 2007 operating plan allocations of new budget authority to the regional offices for enforcement and compliance assurance program/projects and (2) differences, if any, between those amounts and the amounts reported as obligated in the regional offices for these program/projects. In responding to these objectives, we also reviewed OECA's workforce planning system to determine whether EPA has reliable enforcement workload information that can support accurate, data-driven resource allocations.

On May 2, 2008, we briefed professional staff from the House Appropriations Subcommittee on Interior, Environment, and Related Agencies on the results of our review (see enc. I). This letter summarizes the main points from our briefing. At the request of the subcommittee, we are also providing summary information on our past reports that reviewed whether OECA's workforce planning system provided reliable information on EPA's enforcement workload that could support a systematic, data-driven process for allocating resources (see enc. II) and managerial cost accounting (MCA) in the federal government and our prior reviews of MCA practices in executive branch agencies (see enc. III).

In consultation with your offices, we selected for our review four program/projects that encompass EPA's core enforcement and compliance assurance program and that are critical to ensuring compliance with federal environmental laws: (1) civil enforcement, (2) compliance assistance and centers,

⁶The number 14 does not include 3 program/projects that are categorical grants funded through EPA's State and Tribal Assistance appropriation account and administered by OECA.

⁷GAO, *Human Capital: Implementing an Effective Workforce Strategy Would Help EPA to Achieve Its Strategic Goals*, [GAO-01-812](#) (Washington, D.C.: July 31, 2001); *Clean Water Act: Improved Resource Planning Would Help EPA Better Respond to Changing Needs and Fiscal Constraints*, [GAO-05-721](#) (Washington, D.C.: July 22, 2005).

(3) compliance incentives, and (4) compliance monitoring.⁸ These program/projects composed about 50 percent of the total \$524 million of fiscal year 2007 new budget authority allocated in EPA's fiscal year 2007 operating plan for the agency's enforcement and compliance assurance program.⁹ We focused only on EPA's fiscal year 2007 Environmental Program and Management (EPM) appropriation account because it provided about 98 percent of the fiscal year 2007 new budget authority for the four program/projects selected for our review.¹⁰ To review fiscal year 2007 new budget authority and reported obligations of that budget authority for the four program/projects in EPA's 10 regional offices, we obtained detailed budget and financial data from EPA's Integrated Financial Management System. To complete our review, we met with officials from EPA's Office of the Chief Financial Officer (OCFO) and OECA in EPA headquarters. We conducted this performance audit from September 2007 through July 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found that EPA's fiscal year 2007 operating plan allocated to the regional offices approximately 72 percent (\$184 million) of its fiscal year 2007 new budget authority associated with the four enforcement and compliance assurance program/projects that we reviewed. We found only small differences between these amounts and the amounts reported as obligated in the regional offices. Specifically, EPA reported as obligated in its regional offices about \$179 million, or 2.6 percent less than the amounts allocated in the operating plan.

⁸(1) the civil enforcement program addresses violations of federal statutes by taking legal actions to correct violations and prevent their recurrence; (2) the compliance assistance and centers program provides information to assist the regulated community understand and comply with statutory and regulatory requirements; (3) the compliance incentives program promotes compliance through the use of incentive policies that reduce or waive penalties under certain conditions for facilities that voluntarily discover, promptly disclose, and correct environmental problems; (4) the compliance monitoring program includes activities such as site investigations and gathering data to determine whether an individual facility or a group of facilities are in compliance with environmental laws and requirements.

⁹This total does not include fiscal year 2007 new budget authority provided by EPA's State and Tribal Assistance Grant appropriation account.

¹⁰The EPM appropriation account is available for 2 years, which means this budget authority remained available for obligation until September 30, 2008.

EPA’s Fiscal Year 2007 Operating Plan Allocated to the Regional Offices about 72 Percent of the Resources under Review for the Four Enforcement and Compliance Assurance Program/Projects

EPA’s fiscal year 2007 operating plan allocated to the regional offices about \$184 million of the EPM appropriation account for the four enforcement and compliance assurance program/projects—civil enforcement, compliance assistance and centers, compliance incentives, and compliance monitoring. This represented about 72 percent of the total fiscal year 2007 new budget authority provided by the EPM appropriation account for these program/projects (see enc. I for details on the 10 regional offices).

Only Small Differences Existed between the Amounts EPA Allocated to the Regional Offices in Its Fiscal Year 2007 Operating Plan and the Amounts Reported as Obligated in the Regional Offices

EPA reported as obligated in its regional offices about \$179 million of fiscal year 2007 new budget authority provided by its EPM appropriation for the four enforcement and compliance assurance program/projects. This was about \$4.8 million, or 2.6 percent less than the amounts allocated to the regional offices in the agency’s operating plan as shown in table 1 (see enc. I for details on the 10 regional offices).¹¹

Table 1: EPA’s Fiscal Year 2007 Operating Plan Allocations to the Regional Offices of New Budget Authority Provided by the EPM Appropriation and Obligations of That Budget Authority for Four Enforcement and Compliance Assurance Program/Projects

(Dollars in thousands)

Program/project	New budget authority	Obligations	Difference between new budget authority and obligations	
			In dollars	In percent
Regional total	\$183,979	\$179,213.7	\$4,765.3	2.59%
Civil enforcement	100,132	98,349.9	1,782.1	1.78
Compliance assistance and centers	20,837	19,965.2	871.8	4.18
Compliance incentives	5,105	4,413.3	691.7	13.55
Compliance monitoring	\$57,905	\$56,485.3	\$1,419.7	2.45%

Source: GAO analysis of EPA data.

¹¹Generally agencies may shift, or reprogram, funds within an appropriation or fund account as part of their duty to manage their funds. Unlike transfers, agencies may reprogram without additional statutory authority.

EPA Lacks Current Enforcement and Compliance Assurance Information to Guide a Systematic Approach to Resource Allocations in the Regional Offices

In the course of our work, we noticed EPA's approach to allocating resources in its operating plan to its regional offices has not substantially changed since we reported on it in 2001 and 2005.¹² We reported in 2001 that OECA deployed its enforcement and compliance assurance workforce largely on the basis of workload models that were developed and last updated in the 1980s and did not consider current workload information such as the increased role states assumed over the years in environmental enforcement. We reported in 2005 that EPA's process for allocating resources involved making annual incremental adjustments and relied primarily on historical precedent. EPA did not have a system in place to conduct a bottom-up review of the nature or distribution of its current workload, which has changed over time as EPA has taken on new responsibilities under the Clean Water Act and other laws and the states gradually assumed a greater role in the day-to-day implementation of key aspects of this workload.¹³ We specifically recommended in 2005 that EPA focus its efforts on a ground level assessment and (1) identify key workload indicators that drive resource needs, (2) ensure that relevant data are complete and reliable, and (3) use the results to inform the agency's resource allocations. In both reports, we noted that one obstacle to developing a more systematic, data-driven approach to resource allocations was that EPA lacks complete and reliable workforce planning information, such as how much time staff work on various types of enforcement activities. In responding to our 2005 report, EPA voiced concerns that a bottom-up workload assessment contrasts with its approach, which links budgeting and resource allocation to performance goals and results. However, we maintain that periodically assessing workload and how it drives resource needs is fully compatible with and would enhance EPA's approach.

Comments from the Environmental Protection Agency

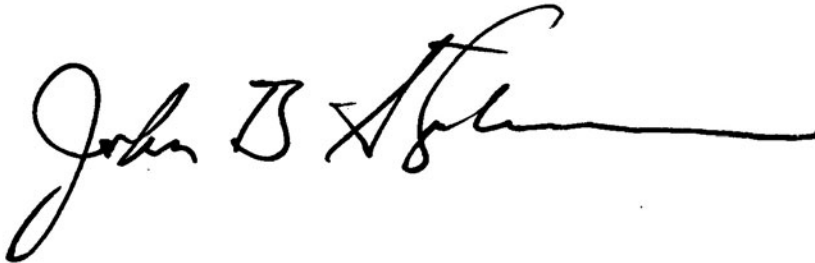
In written comments on the draft report, EPA generally agreed with the information presented. EPA also provided some technical comments on the report, which we have incorporated as appropriate in the report. EPA's written comments are reprinted in Enclosure IV.

¹²[GAO-01-812](#) and [GAO-05-721](#).

¹³While our 2005 report focused on changes in EPA's responsibilities under the Clean Water Act, we reported in July 2007 on specific changes in EPA's and the states' environmental enforcement responsibilities that resulted from changes in regulated pollutants and sources under the Clean Water Act, Clean Air Act, and other laws. See, GAO, *EPA-State Enforcement Partnership Has Improved, But EPA's Oversight Needs Further Enhancement*, [GAO-07-883](#) (Washington, D.C.: July 31, 2007).

We are sending copies of this report to appropriate congressional committees, the Administrator of EPA, and other interested parties. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at 202-512-3841 or stephensonj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Ed Kratzer, Assistant Director; Mark Braza; Carlos Diz; Brian M. Friedman; Donald Neff; Jacqueline Nowicki; Alison O'Neill; Sheila Rajabiun; Michael Sagalow; John C. Smith; Jeanette Soares; and Jack Warner.

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

John B. Stephenson
Director, Natural Resources and Environment

Enclosures

Briefing to the Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, U.S. House of Representatives

Background

House Report No. 110-187 directed GAO to review the Environmental Protection Agency’s (EPA) budget execution to address questions raised by the House Appropriations Subcommittee about how EPA allocates funds to its regional offices and how the regional offices obligate these funds for individual programs and projects. Subcommittee professional staff directed GAO to focus the review on EPA’s enforcement and compliance assurance program in the regional offices, which is an area of primary concern to the subcommittee. Specifically, the subcommittee professional staff said their concerns could be satisfied by a descriptive review of (1) EPA’s allocations of budget authority to the regional offices for enforcement and compliance assurance program/projects in the agency’s operating plan and (2) changes, if any, EPA made in the fiscal year 2007 operating plan to the budget authority allocated for enforcement and compliance assurance in the regional offices and the fiscal year 2007 obligations. In addition, subcommittee staff said they need to understand whether budget authority allocated in the operating plan for civil enforcement is being reprogrammed and obligated for nonenforcement activities.

Table 1: Fiscal Year 2007 New Budget Authority Allocated to Selected Program/Projects in EPA’s Beginning of Year Operating Plan, End of Year Operating Plan, Total Net Change in Budget Authority during the Year, and Fiscal Year 2007 Obligations of New Budget Authority

(Dollars in thousands)
 Fiscal year 2007
 New budget authority

Appropriation and program/project	Beginning of year^a	End of year^b	Net change during year		Obligations^c
				(percent)	
Environmental program and management					
Total for four program/projects	\$257,447	\$256,830.2	-\$616.8	-0.24%	\$246,657.0
Civil enforcement	125,578	125,078.5	-499.5	-0.40	121,905.4
Compliance assistance and centers	29,170	29,253	83	0.28	27,238.7
Compliance incentives	9,755	9,284.6	-470.4	-4.82	8,477.1
Compliance monitoring	\$92,944	\$93,214.1	\$270.1	0.29%	\$89,035.8
Hazardous substance superfund					
Total for four program/projects	\$2,225	\$2,343	\$118	5.30%	\$2,128.1
Civil enforcement	880	880	0	0	726.3
Compliance assistance and centers	22	22	0	0	11.1
Compliance incentives	141	141	0	0	120.5
Compliance monitoring	\$1,182	\$1,300	\$118	9.98%	\$1,270.2
Leaking underground storage tanks					
Compliance assistance and centers	\$724	\$671.6	-\$52.4	-7.24%	522.5
Oil spill response					

Enclosure I

(Dollars in thousands)
Fiscal year 2007
New budget authority

Appropriation and program/project	Beginning of year ^a	End of year ^b	Net change during year		Obligations ^c
Total for two program/projects	\$2,007	\$2,006.9	-\$0.1	-0.005%	\$1,788.9
Civil enforcement	1,730	1,729.9	-0.1	-0.01	1,530.0
Compliance assistance and centers	\$277	\$277	0	0	\$258.9

Source: GAO analysis of EPA data.

^aBeginning of year fiscal year 2007 new budget authority are allocations that EPA reported in the fiscal year 2007 operating plan that it submitted to the House and Senate Committees on Appropriations on March 15, 2007. These allocations reflect budget authority enacted for the entire fiscal year 2007, October 1, 2006, through September 30, 2007. EPA referred to these amounts as Total 2007 Enacted in its fiscal year 2007 operating plan.

^bEnd of year fiscal year 2007 new budget authority represents amounts allocated in EPA's fiscal year 2007 operating plan as of September 30, 2007. EPA reported this plan in the agency's Integrated Financial Management System.

^cFiscal year 2007 obligations are reported obligations of fiscal year 2007 new budget authority from EPA's Integrated Financial Management System. These obligations are not EPA's total fiscal year 2007 obligations for the four selected program/projects because the above amounts do not include unexpired prior year budget authority that was available for obligation in fiscal year 2007.

Summary Highlights

This analysis focused on EPA's Environmental Program and Management (EPM) Appropriation

Allocations to the regional offices

- EPA allocated over half the fiscal year 2007 new budget authority for the four program/projects to the regions:
 - Civil enforcement—\$100.1 million, or 79.7 percent;
 - Compliance assistance and centers—\$20.8 million, or 71.4 percent;
 - Compliance incentives—\$5.1 million, or 52.3 percent; and
 - Compliance monitoring—\$57.9 million, or 62.3 percent.

Fiscal Year 2007 Obligations of Fiscal Year 2007 New Budget Authority

- Payroll made up the bulk of EPA's fiscal year 2007 obligations for the selected program/projects in the regions.

Operating Plan Changes in New Budget Authority between the Beginning and End of Fiscal Year 2007¹⁴

- Overall, there was a \$616,800 (0.24 percent) net decrease in the total allocation to the four selected program/projects. The total allocation to the four program/projects in the regions decreased \$241,100, or 0.13 percent.
- Changes in individual regional offices to selected program/projects were small and varied:
 - The largest dollar change was in Region 10 (Seattle)—a net increase of \$410,600, or 10.88 percent, in the allocations for compliance monitoring.
- For the four program/projects agencywide, the largest change was a net decrease in civil enforcement (\$499,500, or 0.4 percent). The bulk of this was due to net change of \$448,110 in four OECA headquarters units:
 - Office of Assistant Administrator—a decrease of \$202,200, or 5.3 percent;
 - Office of Compliance—a decrease of \$150,000, or 56.4 percent;
 - Office of Civil Enforcement—a decrease of \$114,400, or 0.6 percent;
 - Office of Site Remediation Enforcement—a decrease of \$43,000, or 6.9 percent.
- The total regional allocation for civil enforcement decreased \$51,400.
 - The largest changes were in Region 5 (Chicago)—a decrease of \$302,500, or 1.73 percent; and Region 6 (Dallas)—an increase of \$300,000, or 2.20 percent.
 - Region 4 (Atlanta) had no change.

GAO Reported in 2001 and 2005 that EPA Lacked Current Enforcement and Compliance Assurance Information to Guide a Systematic Approach to Resource Allocations in the Regional Offices

- We reported in 2001 that OECA deployed its enforcement and compliance assurance workforce largely on the basis of workload models that were last updated in the 1980s and did not consider current workload information.¹⁵ We reported in 2005 that EPA's process for allocating resources involved making

¹⁴Generally agencies may shift, or reprogram, funds within an appropriation or fund account as part of their duty to manage their funds. Unlike transfers, agencies may reprogram without additional statutory authority.

¹⁵[GAO-01-812](#).

annual incremental adjustments and relied primarily on historical precedent.¹⁶ EPA did not have a system in place to conduct a bottom-up review of the nature or distribution of its current workload, which has changed over time as EPA has taken on new responsibilities under the Clean Water Act and other laws. We specifically recommended in 2005 that EPA focus its efforts on a ground level assessment and (1) identify key workload indicators that drive resource needs, (2) ensure that relevant data are complete and reliable, and (3) use the results to inform the agency's resource allocations. In 2001 and 2005, we noted that one obstacle to developing a more systematic, data-driven approach to resource allocations was that EPA lacks complete and reliable workforce planning information, such as how much time staff work on various types of enforcement activities.

¹⁶[GAO-05-721](#).

Scope and Methodology

To complete this briefing we met with officials from the EPA Office of the Chief Financial Officer (OCFO) and the Office of Enforcement and Compliance Assurance in EPA headquarters between October 2007 and May 2008. We also reviewed reported budget and obligations data for EPA's headquarters and regional offices from the agency's Integrated Financial Management Information System.

This review focused on

- EPA's fiscal year 2007 operating plan submitted to EPA's House and Senate Appropriations Subcommittees on March 15, 2007, and the fiscal year 2007 obligations of the budget authority in this plan.
- Fiscal year 2007 new budget authority and fiscal year 2007 obligations of this budget authority.¹⁷
- The enforcement and compliance assurance program in the regional offices.¹⁸
- Four selected program activities, called "program/projects."¹⁹
- New budget authority allocated to the regional offices for the selected program/projects came from three of EPA's fiscal year 2007 appropriations: 1. Environmental Program and Management (2-year budget authority); 2. Leaking Underground Storage Tanks (no-year budget authority), 3. Oil Spill Response (no-year budget authority). We focused only on EPA's fiscal year 2007 Environmental Program and Management appropriation account because it provided about 98 percent of the fiscal year 2007 new budget authority for the four program/projects selected for our review.

¹⁷ EPA's fiscal year 2007 operating plan only took into account EPA's newly enacted budget authority for fiscal year 2007. Information about balances of unexpired prior year budget authority that was available for obligation in fiscal year 2007 is provided in Enclosure II.

¹⁸ EPA administers its environmental enforcement and compliance assurance responsibilities through its headquarters Office of Enforcement and Compliance Assurance (OECA). While OECA provides overall direction on enforcement policies, and sometimes takes direct enforcement action, EPA's 10 regional offices are responsible for carrying out much of EPA's enforcement activities.

¹⁹ Civil enforcement, Compliance assistance and centers, Compliance incentives, Compliance monitoring.

Enclosure I

Enclosure I: Fiscal Year 2007 New Budget Authority Allocated to the Selected Program/Projects in the Beginning of the Year in EPA's Fiscal Year 2007 Operating Plan Submitted to EPA's House and Senate Committees on Appropriations and Fiscal Year 2007 Obligations of This New Budget Authority

(Dollars in thousands) Fiscal year 2007 Appropriation and program/project	New budget authority^a (1)	Obligations^b (2)	Difference (2 minus 1)	
			(in percent)	
Environmental program and management				
Civil enforcement	\$125,578	\$121,905.4	-\$3,672.6	-2.92%
Compliance assistance and centers	29,170	27,238.7	-1,931.3	-6.62
Compliance incentives	9,755	8,477.1	-1,277.9	-13.10
Compliance monitoring	\$92,944	\$89,035.8	-\$3,908.2	-4.20%
Hazardous substance superfund				
Civil enforcement	\$880	\$726.3	-\$153.7	-17.47%
Compliance assistance and centers	22	11.1	-10.9	-49.55
Compliance incentives	141	120.5	-20.5	-14.54
Compliance monitoring	\$1,182	\$1,270.2	\$88.2	7.46%
Leaking underground storage tanks				
Compliance assistance and centers	\$724	\$522.5	-\$201.5	-27.83%
Oil spill response				
Civil enforcement	\$1,730	\$1,530	-\$200	-11.56%
Compliance assistance and centers	\$277	\$258.9	-\$18.1	-6.53%

Source: GAO analysis of EPA data.

^aNew budget authority are allocations that EPA reported in the fiscal year 2007 operating plan that it submitted to the House and Senate Committees on Appropriations on March 15, 2007. These allocations reflect budget authority enacted for the entire fiscal year 2007: October 1, 2006, through September 30, 2007. EPA refers to these amounts as Total 2007 Enacted in its fiscal year 2007 operating plan.

^bFiscal year 2007 obligations are reported obligations of fiscal year 2007 new budget authority in EPA's Integrated Financial Management System. These obligations are not EPA's total fiscal year 2007 obligations for the four selected program/projects because the above amounts do not include unexpired prior year budget authority that was available for obligation in fiscal year 2007.

Enclosure I

Enclosure II: EPA's Total Fiscal Year 2007 Obligations, Obligations of Fiscal Year 2007 New Budget Authority, and Fiscal Year 2007 Carryover for the Selected EPA Program/Projects

(Dollars in thousands)
Fiscal year 2007

Appropriation and program/project	Total obligations	Obligations of new budget authority	Carryover	Carryover as a share of total obligations
				(in percent)
Environmental program and management				
Total for four program/projects	\$251,404	\$246,657	\$4,747	1.89%
Civil enforcement	123,003.7	121,905.4	1,098.3	0.89
Compliance assistance and centers	28,226.9	27,238.7	988.2	3.50
Compliance incentives	9,448.8	8,477.1	971.7	10.28
Compliance monitoring	\$90,724.6	\$89,035.8	\$1,688.8	1.86%
Hazardous substance superfund				
Total for four program/projects	\$2,376.7	\$2,128.1	\$248.6	10.46%
Civil enforcement	739.2	726.3	12.9	1.75
Compliance assistance and centers	11.1	11.1	0	0
Compliance incentives	139.4	120.5	18.9	13.56
Compliance monitoring	\$1,487	\$1,270.2	\$216.8	14.58%
Leaking underground storage tanks				
Compliance assistance and centers	\$644.1	\$522.5	\$121.6	18.88%
Oil spill response				
Total for two program/projects	\$1,929.4	\$1,788.9	\$140.5	7.28%
Civil enforcement	1,661.5	1,530	131.5	7.91
Compliance assistance and centers	\$267.9	\$258.9	\$9	3.36%

Source: GAO analysis of EPA data.

Notes: Carryover refers to balances of unexpired prior year budget authority that were available for obligation in fiscal year 2007.

All reported obligations shown in this table are from EPA's Integrated Financial Management System.

Enclosure I

Enclosure III: Fiscal Year 2007 New Budget Authority Allocated to the Selected Program/Projects in EPA's Beginning of Year Operating Plan, End of Year Operating Plan, and Total Net Change in Budget Authority during the Year

Fiscal year 2007 new budget authority
(Dollars in thousands)

Appropriation, program/project, region	Beginning of year^a (1)	End of year^b (2)	Net change during year (2 minus 1)	Net change during year (in percent)
Environmental program and management				
Civil enforcement				
Headquarters total	\$25,446	\$24,997.9	-\$448.1	-1.76%
Region total	100,132	100,080.6	-51.4	-0.05
Region 1, Boston	5,902	5,861.9	-40.1	-0.68
Region 2, New York	11,599	11,530	-69	-0.59
Region 3, Philadelphia	9,884	9,875	-9	-0.09
Region 4, Atlanta	13,098	13,098	0	0
Region 5, Chicago	17,484	17,181.5	-302.5	-1.73
Region 6, Dallas	13,606	13,906	300	2.20
Region 7, Kansas City	4,804	5,048.2	244.2	5.08
Region 8, Denver	7,252	7,076.2	-175.8	-2.42
Region 9, San Francisco	10,420	10,480	60	0.58
Region 10, Seattle	\$6,083	\$6,023.8	-\$59.2	-0.97%
Compliance assistance and centers				
Headquarters total	\$8,333	\$8,440.9	\$107.9	1.29%
Region total	20,837	20,812.1	-24.9	-0.12
Region 1, Boston	1,801	1,705.9	-95.1	-5.28
Region 2, New York	2,512	2,762	250	9.95
Region 3, Philadelphia	1,737	1,737	0	0
Region 4, Atlanta	2,761	2,760.1	-0.9	-0.03
Region 5, Chicago	3,038	3,133	95	3.13
Region 6, Dallas	2,503	2,303	-200	-7.99
Region 7, Kansas City	1,077	1,147.7	70.7	6.56
Region 8, Denver	1,266	1,244.4	-21.6	-1.71
Region 9, San Francisco	2,166	2,064	-102	-4.71
Region 10, Seattle	\$1,976	\$1,955	-\$21	-1.06%
Compliance incentives				
Headquarters total	\$4,650	\$4,650	0	0
Region total	5,105	4,634.6	-470.4	-9.21
Region 1, Boston	1,054	711	-343	-32.54
Region 2, New York	626	676	50	7.99
Region 3, Philadelphia	510	530	20	3.92
Region 4, Atlanta	608	608	0	0
Region 5, Chicago	680	585	-95	-13.97
Region 6, Dallas	540	430	-110	-20.37
Region 7, Kansas City	371	371	0	0
Region 8, Denver	120	121.2	1.2	1.00
Region 9, San Francisco	457	515.4	58.4	12.78
Region 10, Seattle	\$139	\$87	-\$52	-37.41%
Compliance monitoring				
Headquarters total	\$35,039	\$35,003.5	-\$35.5	-0.10%
Region total	57,905	58,210.6	305.6	0.53

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Fiscal year 2007 new budget authority
(Dollars in thousands)

Appropriation, program/project, region	Beginning of year^a (1)	End of year^b (2)	Net change during year (2 minus 1)	Net change during year (in percent)
Region 1, Boston	4,316	4,568.5	252.5	5.85
Region 2, New York	6,606	6,503.8	-102.2	-1.55
Region 3, Philadelphia	5,430	5,388.9	-41.1	-0.76
Region 4, Atlanta	7,853	7,869.6	16.6	0.21
Region 5, Chicago	8,792	8,730.3	-61.7	-0.70
Region 6, Dallas	7,744	7,746.5	2.5	0.03
Region 7, Kansas City	4,613	4,623	10	0.22
Region 8, Denver	3,125	2,951.8	-173.2	-5.54
Region 9, San Francisco	5,653	5,644.6	-8.4	-0.15
Region 10, Seattle	\$3,773	\$4,183.6	\$410.6	10.88%
Hazardous substance superfund				
Civil enforcement				
Headquarters total	\$880	\$880	0	0
Compliance assistance and centers				
Headquarters total	\$22	\$22	0	0
Compliance incentives				
Headquarters total	\$141	\$141	0	0
Compliance monitoring				
Headquarters total	\$1,182	\$1,300	\$118	9.98%
Leaking underground storage tanks				
Compliance assistance and centers				
Region total	\$724	\$671.6	-\$52.4	-7.24%
Region 1, Boston	89	89	0	0
Region 3, Philadelphia	113	64	-\$49	-43.36
Region 4, Atlanta	110	110	0	0
Region 5, Chicago	126	126	0	0
Region 6, Dallas	110	110	0	0
Region 7, Kansas City	20	20	0	0
Region 8, Denver	77	82.5	5.5	7.14
Region 9, San Francisco	30	31	1	3.33
Region 10, Seattle	\$49	\$39.1	-\$9.9	-20.20%
Oil spill response				
Civil enforcement				
Headquarters total	\$168	\$170.1	\$2.1	1.25%
Region total	1,562	1,559.8	-2.2	-0.14
Region 1, Boston	152	152	0	0
Region 2, New York	155	155	0	0
Region 3, Philadelphia	162	163	1	0.62
Region 4, Atlanta	177	177	0	0
Region 5, Chicago	202	203	1	0.50
Region 6, Dallas	182	182	0	0
Region 7, Kansas City	115	115.1	0.1	0.09
Region 8, Denver	149	144.3	-4.7	-3.15
Region 9, San Francisco	112	112	0	0
Region 10, Seattle	\$156	\$156.4	\$0.4	0.26%

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Fiscal year 2007 new budget authority
(Dollars in thousands)

Appropriation, program/project, region	Beginning of year^a (1)	End of year^b (2)	Net change during year (2 minus 1)	Net change during year (in percent)
Compliance assistance and centers				
Headquarters total	\$277	\$258.4	-\$18.6	-6.71%
Region total	0	18.6	18.6	Not applicable
Region 5, Chicago	0	7.0	7.0	Not applicable
Region 6, Dallas	0	7.0	7.0	Not applicable
Region 8, Denver	0	\$4.6	\$4.6	Not applicable

Source: GAO analysis of EPA data

^aBeginning of year new budget authority are amounts reported in the EPA fiscal year 2007 operating plan from EPA's Integrated Financial Management System. EPA referred to these amounts as 2007 Enacted in its fiscal year 2007 operating plan.

^bEnd of year new budget authority represents amounts allocated in EPA's fiscal year 2007 operating plan as of September 30, 2007. EPA reported this plan in the agency's Integrated Financial Management System.

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Enclosure IV: The Difference between the End of Year Fiscal Year 2007 New Budget Authority Allocated to the Selected Program/Projects in the Regional Offices 1-10 and the Fiscal Year 2007 Obligations of This Budget Authority

(Dollars in thousands)
Fiscal year 2007

Appropriations, program/project, and region	End of year new budget authority^a (1)	Obligations of new budget authority^b (2)	Difference (2 minus 1)	Difference (2) minus (1)
				(in percent)
Environmental program and management				
Civil enforcement				
Headquarters total	\$24,997.9	\$23,555.5	-\$1,442.4	-5.77%
Region total	100,080.6	98,349.9	-1,730.7	-1.73
Region 1, Boston	5,861.9	5,646.9	-215	-3.67
Region 2, New York	11,530	11,375.7	-154.3	-1.34
Region 3, Philadelphia	9,875	9,558.8	-316.2	-3.20
Region 4, Atlanta	13,098	12,981.2	-116.8	-0.89
Region 5, Chicago	17,181.5	16,775.8	-405.7	-2.36
Region 6, Dallas	13,906	13,666.6	-239.4	-1.72
Region 7, Kansas City	5,048.2	4,987.4	-60.8	-1.20
Region 8, Denver	7,076.2	7,072.8	-3.4	-0.05
Region 9, San Francisco	10,480	10,405.8	-74.2	-0.71
Region 10, Seattle	\$6,023.8	\$5,878.9	-\$144.9	-2.41%
Compliance assistance and centers				
Headquarters total	\$8,440.9	\$7,273.5	-\$1,167.4	-13.83%
Region total	20,812.1	19,965.2	-846.9	-4.07
Region 1, Boston	1,705.9	1,612.2	-93.7	-5.49
Region 2, New York	2,762	2,660.6	-101.4	-3.67
Region 3, Philadelphia	1,737	1,703.1	-33.9	-1.95
Region 4, Atlanta	2,760.1	2,733.8	-26.3	-0.95
Region 5, Chicago	3,133	3,060.6	-72.4	-2.31
Region 6, Dallas	2,303	2,284.9	-18.1	-0.79
Region 7, Kansas City	1,147.7	1,043.6	-104.1	-9.07
Region 8, Denver	1,244.4	999.7	-244.7	-19.66
Region 9, San Francisco	2,064	1,967.9	-96.1	-4.66
Region 10, Seattle	\$1,955	\$1,898.8	-\$56.2	-2.87%
Compliance Incentives				
Headquarters total	\$4,650	\$4,063.8	-\$586.2	-12.61%
Region total	\$4,634.6	\$4,413.3	-\$221.3	-4.77
Region 1, Boston	711	625.3	-85.7	-12.05
Region 2, New York	676	641.8	-34.2	-5.06
Region 3, Philadelphia	530	480.9	-49.1	-9.26
Region 4, Atlanta	608	602.5	-5.5	-0.90
Region 5, Chicago	585	558.1	-26.9	-4.60
Region 6, Dallas	430	413.1	-16.9	-3.93
Region 7, Kansas City	371	362.5	-8.5	-2.29
Region 8, Denver	121.2	123.3	2.1	1.73
Region 9, San Francisco	515.4	539.2	23.8	4.62

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(Dollars in thousands)
Fiscal year 2007

Appropriations, program/project, and region	End of year new budget authority^a (1)	Obligations of new budget authority^b (2)	Difference (2 minus 1)	Difference (2) minus (1)
Region 10, Seattle	\$87	\$66.6	-\$20.4	-23.45%
Compliance monitoring				
Headquarters total	\$35,003.5	\$32,550.5	-\$2,453	-7.01%
Region total	58,210.6	56,485.3	-1,725.3	-2.96
Region 1, Boston	4,568.5	4,414.6	-153.9	-3.37
Region 2, New York	6,503.8	6,216.4	-287.4	-4.42
Region 3, Philadelphia	5,388.9	5,301.3	-87.6	-1.63
Region 4, Atlanta	7,869.6	7,583.1	-286.5	-3.64
Region 5, Chicago	8,730.3	8,679.4	-50.9	-0.58
Region 6, Dallas	7,746.5	7,361	-385.5	-4.98
Region 7, Kansas City	4,623	4,549.5	-73.5	-1.59
Region 8, Denver	2,951.8	2,782.3	-169.5	-5.74
Region 9, San Francisco	5,644.6	5,634	-10.6	-0.19
Region 10, Seattle	\$4,183.6	\$3,963.7	-\$219.9	-5.26%
Hazardous substance superfund				
Civil enforcement				
Headquarters total	\$880	\$726.3	-\$153.7	-17.47%
Compliance assistance and centers				
Headquarters total	\$22	\$11.1	-\$10.9	-49.55%
Compliance incentives				
Headquarters total	\$141	\$120.5	-\$20.5	-14.54%
Compliance monitoring				
Headquarters total	\$1,300	\$1,270.2	-\$29.8	-2.29%
Leaking underground storage tanks				
Compliance assistance and centers				
Region total	\$671.6	\$522.5	-\$149.1	-22.20%
Region 1, Boston	89	0.4	-88.6	-99.55
Region 3, Philadelphia	64	51.8	-12.2	-19.06
Region 4, Atlanta	110	95.9	-14.1	-12.82
Region 5, Chicago	126	117.4	-8.6	-6.83
Region 6, Dallas	110	111.6	1.6	1.45
Region 7, Kansas City	20	27.9	7.9	39.50
Region 8, Denver	82.5	79.6	-2.9	-3.52
Region 9, San Francisco	31	31	0	0
Region 10, Seattle	\$39.1	\$6.9	-\$32.2	-82.35%
Oil spill response				
Civil enforcement				
Headquarters total	\$170.1	\$163.9	-\$6.2	-3.64%
Region total	1,559.8	1,366.1	-193.7	-12.42
Region 1, Boston	152	141.9	-10.1	-6.64
Region 2, New York	155	156.1	1.1	0.71

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(Dollars in thousands)
Fiscal year 2007

Appropriations, program/project, and region	End of year new budget authority ^a (1)	Obligations of new budget authority ^b (2)	Difference (2 minus 1)	Difference (2) minus (1)
Region 3, Philadelphia	163	156.2	-6.8	-4.17
Region 4, Atlanta	177	140.5	-36.5	-20.62
Region 5, Chicago	203	200.6	-2.4	-1.18
Region 6, Dallas	182	145.9	-36.1	-19.84
Region 7, Kansas City	115.1	109.9	-5.2	-4.52
Region 8, Denver	144.3	128.5	-15.8	-10.95
Region 9, San Francisco	112	65.5	-46.5	-41.52
Region 10, Seattle	\$156.4	\$121	-\$35.4	-22.63%
Compliance assistance and centers				
Headquarters total	\$258.4	\$247.3	-\$11.1	-4.30%
Region total	18.6	11.6	-7	-37.63
Region 5, Chicago	7	7	0	0
Region 6, Dallas	7	0	-7	-100.00
Region 8, Denver	\$4.6	\$4.6	\$0	0%

Source: GAO analysis of EPA data.

^aEnd of year new budget authority represents amounts allocated in EPA's fiscal year 2007 operating plan as of September 30, 2007. EPA reported this plan in the agency's Integrated Financial Management System.

^bThe fiscal year 2007 obligations are reported obligations based on fiscal year 2007 new budget authority. These obligations are not EPA's total obligations for those categories because the above amounts do not include obligations of unexpired prior year budget authority that was available for obligation in fiscal year 2007.

Summary of Past GAO Reports on OECA's Workforce Planning System

The information below summarizes key findings and recommendations from our prior reports on the Environmental Protection Agency's (EPA) Office of Enforcement and Compliance Assurance (OECA) workforce planning system. The full versions of these reports are available in electronic format on GAO's Web site at <http://www.gao.gov>.

GAO, *Human Capital: Implementing an Effective Workforce Strategy Would Help EPA to Achieve Its Strategic Goals*, GAO-01-812 (Washington, D.C.: July 31, 2001).

The purpose of this study. During the 1990s, as most federal agencies were reducing staff, EPA's workforce grew by about 18 percent, with much of this growth occurring in its 10 regional offices. Some Members of Congress had questioned whether EPA was effectively managing its large, diverse workforce. Particular concern was focused on OECA. As part of a broader report on EPA human capital management challenges, we examined specific human capital management challenges within OECA, specifically, how it deploys its enforcement workforce among EPA's 10 regions to ensure that federal environmental requirements are consistently enforced across regions.

What we found. We found that OECA's workforce deployment did not ensure the consistent enforcement of environmental laws across regions. In particular, we found that OECA's deployment decisions were hampered by two interrelated problems: OECA's enforcement workforce deployment was not based on current workload information and OECA lacked sufficient enforcement information on key regional workload indicators.

- OECA's enforcement workforce deployment was not based on current workload information. Specifically, we found that OECA deployed its enforcement workforce largely on the basis of workload models that were developed in the 1980s and had not been updated since 1989. In general, the workload models were based on the number of regulated facilities in each region and the type and amount of enforcement activities required for a particular program. While the workload models may have been an appropriate tool for allocating enforcement personnel during the 1980s, we reported that many critical changes affecting the enforcement workload have occurred during the 1990s. Since the workload models were developed, the number of environmental laws, regulations, and programs had increased; the focus and requirements of several environmental programs had shifted; states had assumed a greater role in environmental enforcement; and technological advances had affected the skills and expertise needed to conduct enforcement actions.

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- OECA lacked sufficient enforcement information on key regional workload indictors. In addition, we found that OECA could not fully determine the causes and appropriateness of the variations in regional enforcement activities because it does not have complete and reliable workforce planning information on the universe of entities subject to regulation under federal environmental laws and the time required to perform enforcement-related activities, such as assisting facilities to comply with environmental regulations. OECA headquarters and regional managers agreed that to develop an accurate workforce planning system, key fact-based information is essential to enable managers to account for the time of their enforcement staff. The data most needed include the amount of time spent in (1) performing inspections, (2) providing oversight of state inspections, (3) assisting states and industrial facilities to comply with environmental requirements, (4) and taking various legal actions when necessary to require compliance. However, we found that such managerial accounting information was generally not available to OECA's managers.

Our conclusions and recommendations. We cautioned that the lack of workforce planning information limited OECA's ability to determine whether regions and states are consistently meeting the requirements of EPA's enforcement program and whether significant variations from these requirements exist and should be corrected. Without current and complete information on the enforcement workload, OECA cannot determine the proper size of its enforcement staff relative to the regions' enforcement workload. As a result, we said workload imbalances may exist and contribute to inconsistencies in EPA's enforcement efforts. Furthermore, at the time we conducted this work, EPA was considering an 8 percent reduction proposed for fiscal year 2002 in its enforcement staff, and we were concerned that the lack of information on the enforcement workload and the current utilization of staff limit EPA's ability to systematically determine where staffing increases or reductions should be made. To ensure that OECA deployed its resources most effectively and efficiently to achieve the agency's strategic goals for enforcement, we recommended that the EPA administrator establish a systematic method for deploying resources to address the agency's enforcement workload in the regions. Specifically, this would include information on, among other things, the level of resources (full-time equivalents) that are currently being allocated to specific enforcement activities. To develop such a methodology, we said that OECA needs to establish mechanisms for obtaining more complete and reliable data on these factors.

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GAO, *Clean Water Act: Improved Resource Planning Would Help EPA Better Respond to Changing Needs and Fiscal Constraints*, GAO-05-721 (Washington, D.C.: July 22, 2005)

The purpose of this study. Federal and state fiscal constraints may jeopardize past and future accomplishments resulting from the Clean Water Act (the act) and make it increasingly difficult to achieve further progress in addressing new and existing sources of pollution. In this environment, it is important to manage available resources as efficiently as possible and to identify future human capital needs, including the size of the workforce and its deployment across the organization. To carry out its responsibilities under the Clean Water Act, EPA relies on its Office of Water, Office of Enforcement and Compliance Assurance, and 10 regional offices, as well as states' water pollution control agencies. Beginning in 1972, the scope of the act has increased significantly, along with the workload associated with implementing and enforcing its requirements. At the same time, EPA has authorized states to take on more responsibilities, shifting the agency's workload from direct implementation to oversight. Changes in the nature, extent, and distribution of the Clean Water Act workload can affect the resources needed to carry out the act. GAO was asked to determine the (1) extent to which EPA's process for budgeting and allocating resources considers the nature and distribution of its Clean Water Act workload and (2) actions EPA is taking to improve resource planning and the challenges it faces in doing so.²⁰ EPA relies on its Office of Enforcement and Compliance Assurance to carry out the agency's responsibilities for enforcing the requirements of the Clean Water Act that we reviewed.

What We Found. We found that EPA's process for budgeting and allocating resources did not fully consider the agency's current workload. While EPA had made progress in improving resource planning, challenges hindered comprehensive reform. Specifically, we found that

EPA's process for budgeting and allocating resources did not fully consider the agency's current workload, either for specific statutory requirements, such as those included in the Clean Water Act, or for the broader goals and objectives in the agency's strategic plan. Instead, EPA makes incremental adjustments and relies primarily on historical precedent. With prior years' allocations as the

²⁰This report focused on EPA and state resources associated with implementing and enforcing the major programs under the Clean Water Act. For the purposes of this review, we defined EPA's Clean Water Act workload to include activities associated with controls over pollution from specific facilities (called the National Pollutant Discharge Elimination System program) and diffuse sources, such as agricultural runoff. We also included related activities, such as setting water quality criteria and standards, for both specific pollutants and individual water bodies; monitoring water quality; and establishing requirements for the disposal of sewage sludge. We excluded (1) financial assistance for local infrastructure under the Clean Water State Revolving Fund; (2) activities for which the primary federal responsibility lay outside EPA, such as issuing permits for dredged and fill material, managed by the U.S. Army Corps of Engineers; and (3) location-specific programs, such as those focused on the Great Lakes, Chesapeake Bay, and designated sites under the National Estuary Program.

baseline, year-to-year changes are marginal and occur in response to (1) direction from the Office of Management and Budget and Congress, (2) spending caps imposed by EPA's Office of the Chief Financial Officer, and (3) priorities negotiated by senior agency managers. In addition, we found that EPA's program offices and regions also have some flexibility to realign resources based on actual workload. Overall, the impact of these changes is minor, according to EPA. Because the nature and distribution of the act's workload has changed as the scope of regulated activities has grown, with EPA gaining new responsibilities and shifting others to the states, more than marginal changes may be appropriate. EPA does not conduct the periodic bottom-up assessments of the work that needs to be done, the distribution of the workload, or the resources needed to respond more effectively to changing needs and constrained resources.

EPA had made progress in improving resource planning, including some efforts that focused on workforce planning, but challenges hindered comprehensive reform. For example, we found that OECA and the Office of Human Resources surveyed current employees to determine the types of skills they possessed without first identifying the specific skills most needed to accomplish the agency's mission. As a result, these surveys may not have necessarily captured the information EPA needs to comprehensively determine the skills gap. EPA officials acknowledged that the effort was not linked to a detailed analysis of workload and did not provide specific information on the type and deployment of workforce needs. Other efforts by EPA showed promise in providing useful information, but were still in their early stages. Beyond these initiatives, we found that EPA faced challenges in adopting a more systematic process for budgeting and resource allocation: obtaining reliable data on key workload indicators, such as the quantity and quality of water in particular areas, and overcoming internal resistance. Specifically, data on many of the factors that affect workload—and thus drive resource needs—were not comprehensive or reliable. In addition, we reported that EPA staff may have been reluctant to adopt a more systematic, data-driven approach to resource allocation, because of unsatisfactory experiences with using workload models in the 1980s.

Our conclusions and recommendations. Because EPA did not have a system in place to conduct periodic bottom-up assessments of the work that needs to be done, the distribution of the workload, or staff and other resource needs, the agency may have been unable to respond effectively to changing needs and constrained resources. Despite some flexibility in budgeting and allocating resources, EPA could not determine whether the amount and distribution of its resources are appropriate to effectively carry out its strategic goals and objectives or meet its responsibilities under the Clean Water Act and other environmental laws. Moreover, EPA did not have the information it needs to tailor reductions in staff or other resources in a manner that minimizes potential adverse impacts on its environmental programs. Having complete and reliable data on the activities and tasks that must be accomplished—and how that work is distributed organizationally and geographically—will help EPA budget and allocate resources more effectively. In addition, such data will inform the agency's workforce

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planning efforts and help ensure that the right people with the right skills are where they need to be to get the work done.

Among other things, we recommended that EPA focus its efforts on a ground level assessment and identify the key workload indicators that drive resource needs, ensure that relevant data are complete and reliable, and use the results to inform its budgeting and resource allocation. EPA expressed general agreement with much of the report and two of the recommendations, but voiced concern that a bottom-up workload assessment contrasts with its approach, which links budgeting and resource allocation to performance goals and results. We did not take issue with the use of performance and results in developing budgets and allocating resources, although, according to our review, EPA's budget and resource allocations were based primarily on historical precedent, and hence year-to-year changes were marginal. Moreover, we believed our recommendation was fully compatible with an approach that links budgeting and resource allocation to performance goals and results. In our view, the agency's performance goals should be informed by an assessment of the underlying workload—and how the tasks that must be accomplished drive resource needs organizationally and geographically.

**Description of Managerial Cost Accounting in the Federal Government
and a Summary of Prior GAO Reviews of Managerial Cost Accounting
Practices in Executive Branch Agencies**

The information below provides a description of managerial cost accounting (MCA) in the federal government, its potential applications in the federal government, and the fundamental elements for MCA in government agencies. It also provides a description of a report that summarizes the key findings of five earlier GAO reviews of managerial cost accounting practices in executive branch agencies.²¹ The full version of this report is available in electronic format on GAO's Web site at <http://www.gao.gov>.

Description of Managerial Cost Accounting in the Federal Government

A number of laws, accounting standards, system requirements, and related guidance have emphasized the need for cost information in the federal government, establishing requirements and accounting standards for managerial cost accounting information.²² At the forefront, the Chief Financial Officers (CFO) Act of 1990 contains several provisions related to managerial cost accounting, one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the systematic measurement of performance and the development and reporting of cost information.

Managerial cost accounting entails answering a very simple question. How much does it cost to do something, be it an extensive overall program effort or the incremental and iterative efforts associated with a project activity? MCA involves accumulating and analyzing both financial and nonfinancial data to determine the costs of achieving performance goals, delivering programs, and pursuing other activities. Nonfinancial data measure the occurrences of activities and can

²¹GAO, *Managerial Cost Accounting Practices: Implementation and Use Vary Widely across 10 Federal Agencies*, [GAO-07-679](#) (Washington, D.C.: July 20, 2007). This report summarized findings from five reports: *Managerial Cost Accounting Practices: Leadership and Internal Controls Are Key to Successful Implementation*, [GAO-05-1013R](#) (Washington, D.C.: Sept. 2, 2005); *Managerial Cost Accounting Practices: Departments of Education, Transportation, and the Treasury*, [GAO-06-301R](#) (Washington, D.C.: Dec. 19, 2005); *Managerial Cost Accounting Practices: Department of Health and Human Services and Social Security Administration*, [GAO-06-599R](#) (Washington, D.C.: Apr. 18, 2006); *Managerial Cost Accounting Practices: Department of Agriculture and Department of Housing and Urban Development*, [GAO-06-1002R](#) (Washington, D.C.: Sept. 21, 2006); and *Managerial Cost Accounting Practices at the Department of the Interior*, [GAO-07-298R](#) (Washington, D.C.: May 24, 2007).

²²The Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (codified in scattered sections); the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*; the Joint Financial Management Improvement Program's (JFMIP) *Framework for Federal Financial Management Systems*. In December 2004, the JFMIP principals voted to modify the roles and responsibilities of the JFMIP Program Office, which is now known as the Financial Systems Integration Office (FSIO); The Federal Financial Management Improvement Act of 1996 (FFMIA), Pub. L. No. 104-208, tit. VIII, *codified at* 31 U.S.C. § 3512 Note.

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include such things as hours worked, units produced, grants managed, inspections conducted, or people trained. The principal purpose is to assess how much it costs to do whatever is being measured, thus allowing management to analyze whether that cost seems reasonable or to establish a baseline for comparison with others who do similar work. The factors analyzed and the level of detail depends on the operations and needs of the organization. Reliable financial and nonfinancial data are cornerstones of this assessment because if the data are wrong, the resulting analysis can give a distorted view of how well the organization is doing, thereby affecting decision making. MCA differs from financial accounting in that it is primarily intended to provide information for internal decision making rather than external reporting.

There are many potential applications for cost information in the federal government. This information can be used by federal executives for budgeting and cost control, performance measurement, determining reimbursements and setting fees and prices, program evaluations, and decisions that involve economic choices, such as whether to do a project in-house or contract it out.²³ Congress can also use MCA information to determine how to fund programs and monitor agency performance, as well as to analyze the merits of proposals advocated by different parties. The public, in turn, can benefit from greater transparency about program performance and ready access to information on how its tax dollars are spent.

The fundamental elements for MCA in government agencies are set forth in the Statement of Federal Financial Accounting Standards No. 4 (SFFAS 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*, which became effective in fiscal year 1998.²⁴ The five standards in SFFAS 4 require government agencies to (1) accumulate and report the costs of activities on a regular basis for management information purposes; (2) establish responsibility segments, and measure and report the costs of each segment's outputs and calculate the unit cost of each output; (3) determine and report the full costs of government goods and services, including direct²⁵ and indirect²⁶ costs; (4) recognize the costs of goods and services provided by other federal entities;

²³See Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, issued July 31, 1995.

²⁴Statements of Federal Financial Accounting Standards are promulgated by the Federal Accounting Standards Advisory Board (FASAB). FASAB is a federal advisory committee sponsored under an agreement among the Treasury, the Office of Management and Budget (OMB), and GAO to promulgate generally accepted accounting principles for federal reporting entities, such as executive branch agencies.

²⁵Direct costs are costs that can be specifically identified with an output, including salaries and benefits for employees working directly on the output, materials, supplies, and costs with facilities and equipment used exclusively to produce the output.

²⁶Indirect costs are costs that are not specifically identifiable with any output and may include costs for general administration, research and technical support, and operations and maintenance for building and equipment.

and (5) use and consistently follow costing methodologies or cost-finding techniques most appropriate to the segment's operating environment to accumulate and assign costs to outputs. SFFAS 4 states that MCA should be a fundamental part of the financial management system and, to the extent practical, should be integrated with other parts of the system.

A Summary of Prior GAO Reviews of Managerial Cost Accounting Practices in Executive Branch Agencies

In light of the requirements for CFO Act agencies to prepare managerial cost accounting information, we were asked to determine the extent to which those federal agencies develop cost information and use it for managerial decision making. Accordingly, from 2005 through 2007, we completed and reported on reviews of MCA practices in 10 large CFO Act agencies, resulting in five reports.²⁷ In July 2007, we issued *Managerial Cost Accounting Practices: Implementation and Use Vary Widely across 10 Federal Agencies* (GAO-07-679). This report brought the overall observations of our five separate studies together in one report. Specifically, this report summarized our findings from those reports on (1) the ways federal agencies generate managerial cost accounting information, (2) how government managers use cost information to support managerial decision making and provide accountability, and (3) the need for stronger leadership for implementing MCA in many of the agencies we reviewed. The five reports that this capping report summarized included detailed recommendations to the agencies we reviewed, but this capping report contained no new recommendations.

Our reviews of MCA practices at 10 large civilian agencies identified large disparities in the level of MCA implementation among federal agencies as well as the ways in which they use cost information. Few of the federal agencies we reviewed were using MCA to make day-to-day decisions. While strong leadership for MCA was in place at the Department of the Interior (DOI), the Department of Labor (DOL), the Social Security Administration (SSA), and the Department of Transportation (DOT), other agencies have not yet made concerted efforts to promote the benefits of MCA and oversee its implementation and use throughout their respective agencies. Specifically:

- Our reviews of MCA practices at 10 large civilian agencies identified large disparities in the level of MCA implementation among federal agencies as well as the ways in which they use cost information. Of the 10 agencies we reviewed, only 3 had implemented MCA systems agencywide: DOI, SSA, and DOL. In addition, DOT had made significant progress in implementing MCA departmentwide. Three agencies—the Departments of Agriculture, Health and Human Services, and Housing and Urban Development—planned to implement MCA systems when upgrading their overall financial management

²⁷The 10 agencies are the Department of Agriculture, Department of Education, Department of Health and Human Services, Department of Housing and Urban Development, Department of the Interior, Department of Labor, Department of Transportation, Department of the Treasury, Department of Veterans Affairs, and Social Security Administration.

systems, but they had not yet adequately considered their MCA needs. The 3 remaining agencies—the Departments of Education, the Treasury, and Veterans Affairs—had no plans to implement MCA departmentwide, but some of their component agencies had implemented their own MCA systems. In addition, many agencies do not yet have the accurate, reliable, and timely data needed for MCA systems to ensure the outputs are useful and reliable.

- Few of the federal agencies we reviewed were using MCA to make day-to-day decisions. Only DOI and SSA were using cost information routinely to manage operations entitywide. In addition, some component agencies of departments that did not have overall MCA systems were using cost information more routinely to evaluate programs, formulate budgets, and set fees and prices. DOL was developing plans for using its MCA system. Other agencies used cost information primarily for external financial reporting, and were only able to cite a limited number of examples showing how cost information was currently used to help make management decisions.
- Strong leadership for MCA was in place at DOI, DOL, SSA, and DOT. Other agencies have not yet made concerted efforts to promote the benefits of MCA and oversee its implementation and use throughout their respective agencies. Although MCA can be implemented without an integrated financial management system, in those cases it tends to be used for single programs or projects rather than providing day-to-day information for managerial decision making agencywide. For MCA implementation to be successful, it must be tailored to the needs of the organization, be a tool managers can use to make everyday decisions, and be based on sound financial and nonfinancial data. Full MCA implementation across the federal government will require strong executive leadership, improved financial management systems, and a continuing transition in government culture to one of managing costs, in addition to managing the budget.

Comments from the Environmental Protection Agency



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

SEP 19 2008

ASSISTANT ADMINISTRATOR
FOR ENFORCEMENT AND
COMPLIANCE ASSURANCE

Mr. John Stephenson
Director, Natural Resources and Environment
U.S. Government Accountability Office
Washington, DC 20548

Re: EPA's Execution of Its Fiscal Year 2007 New Budget Authority for the
Enforcement and Compliance Assurance Program in the Regional Offices
(Project Number GAO-08-1109R)

Dear Mr. Stephenson:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report entitled, "EPA's Execution of Its Fiscal Year 2007 New Budget Authority for the Enforcement and Compliance Assurance Program in the Regional Offices" (Project Number GAO-08-1109R). The Office of Enforcement and Compliance Assurance (OECA) appreciates the work of the GAO in preparing this report.

The GAO's draft report shows that we carefully monitor our budget execution process to ensure that our funds are obligated in accordance with how they are appropriated. Nevertheless, GAO's draft report also reiterates findings from reports issued in 2001 and 2005 that criticized OECA for using outdated workload models to allocate its workforce and for not identifying and using key indicators to evaluate workload needs and inform resource allocation decisions. EPA recognizes the need to improve its ability to understand and quantify the relative workload of its component organizations and to make allocation decisions based on those assessments. Toward that end, the Agency is committed to improving its analytical capabilities and examining appropriate measures of workload to support the resource allocation process.

In addition to these comments, we have identified several "technical corrections" to the GAO draft report listed below:

1. Elevate the information from footnotes 11 and 12 into the body of the report since they add to the understanding of GAO's analysis and answer some implicit questions from the analysis.

Now footnotes 10
and 11.

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Now on page 4.

2. On page 5, (2nd paragraph), delete the phrase "...EPA's fiscal year 2007 operating plan allocated about 72 percent (\$184 million) of its fiscal year 2007 new budget authority for the four enforcement and compliance assurance program projects that were reviewed to its regional offices..," and replace it with "OECA's FY 2007 operating plan allocated to the regions approximately 72% of the resources associated with the four program/projects we reviewed."
3. Change the term "program project" through out the draft to "program/project."

If you have any questions concerning our response please contact me at (202) 564-2440, or Margaret Schneider, Director, OECA Office of Administration and Policy, at (202) 564-2530.

Sincerely,


Granta Y. Nakayama

(360889)

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