



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

OCT -3 2012

THE INSPECTOR GENERAL

MEMORANDUM

SUBJECT: Evaluation of Region 4's Draft Management Decision in Response to OIG Report No. 12-4-0499, *Costs Claimed by the North Carolina Rural Economic Development Center, Inc., Under EPA Grant No. X96418405*, May 23, 2012

TO: Gwendolyn Keyes Fleming
Regional Administrator, Region 4

Thank you for the region's August 17, 2012, Draft Management Decision in response to the subject report. In the report, we recommended that Region 4 disallow all costs associated with Grant No. X96418405 and recover \$1,192,500 of costs paid to the North Carolina Rural Economic Development Center (NCREDC). We found NCREDC did not comply with the Code of Federal Regulations (CFR), specifically 2 CFR Part 230. The region disagrees with the OIG's recommendation and proposes a Management Decision that allows the grantee to retain the federal share of the questioned costs based on a budget revision, documentation submitted by the grantee since the release of the final report, and corrective actions taken by NCREDC.

We will not contest the region's disagreement with our recommendation; however, we consider corrective action number 3 to be incomplete because the corrective action is not fully supported by appropriate documentation to address the revised allocation of subcontract costs. Our comments related to each of the corrective actions are detailed below.

Corrective Action Number 1

NCREDC submitted a revised budget eliminating its indirect costs and reallocating direct costs between its various funding sources. Based on the revised budget, the region reopened and amended the grant to document the elimination of indirect costs and the revised direct cost allocations.

On September 9, 2009, prior to the grant amendment, the OIG questioned \$178,556 of indirect costs charged to the grant because NCREDC did not have approved rates as required by 2 CFR Part 230. Had the region adequately monitored the grant during the period of performance, it could have insured that NCREDC had approved indirect rates, eliminating the need for the above referenced budget revision.

To resolve the questioned indirect costs, on September 29, 2009, Region 4 directed NCREDC to prepare a revised budget, showing all grant costs paid by EPA as contractual services and eliminating the reimbursement of indirect costs. Based on this budget revision, on December 9, 2009, the region reopened and amended the grant.

The OIG neither directed nor approved the region's resolution process as outlined in the Draft Management Decision, but we will not contest the region's corrective action.

Corrective Action Number 2

Region 4 designated NCREDC as a "high risk" grantee in accordance with 40 CFR §30.14 and will impose a special grant condition on all future awards.

The OIG concurs with the region's corrective action.

Corrective Action Number 3

Region 4 requested NCREDC to submit the methodology for accounting for the allocation of costs among state and federal funding sources for the full project costs. The region reviewed the revised allocations and determined the costs charged to the EPA were reasonable, allowable, supported by appropriate documentation and allocable to EPA in accordance with the 2 CFR Part 230.

With one exception, we agree with the region's determination that the costs submitted to it by NCREDC are reasonable, allocable, and allowable in accordance with the provisions of applicable federal cost principles and the amended grant. However, the OIG considers corrective action number 3 to be incomplete, as explained below.

The grantee's books and records showed indirect cost of \$178,556 and subcontract costs of \$1,013,944 charged to the grant. The grantee's records also showed \$766,382 of subcontract costs applicable to other funding sources. Federal cost principles require that costs be supported by appropriate accounting records.

The budget revision shifted subcontract costs from various other funding sources to the EPA. Therefore, the grantee's books and records should reflect these revised allocations with appropriate credits/refunds made to the other funding sources. The Draft Management Decision addresses the accounting for the disallowance of the indirect cost recovery, but it does not address the accounting for the revised allocation of subcontract costs. If not adequately addressed, NCREDC may be in a position where it recouped \$178,556 of reallocated subcontract costs from both EPA and other funding sources. This may have occurred since the accounting records reflect reimbursement of these subcontract costs from North Carolina sources. Before we can consider this response to be complete, the region must demonstrate that NCREDC will be required to or has properly accounted for the reimbursement of the subcontract costs in its accounting and billing systems.

After we receive additional information from your office in regards to Corrective Action Number 3, we will reconsider our determination. If you have any questions regarding this memorandum, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899 or heist.melissa@epa.gov; or Robert Adachi, Product Line Director, at (415) 947-4537 or adachi.robert@epa.gov.

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