



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

# Semiannual Report to Congress

April 1, 2008 - September 30, 2008



<b>Vision</b>	We are catalysts for improving the quality of the environment and government through problem prevention and identification, and cooperative solutions.
<b>Mission</b>	Add value by promoting economy, efficiency, and effectiveness within EPA and the delivery of environmental programs. Inspire public confidence by preventing and detecting fraud, waste, and abuse in Agency operations and protecting the integrity of EPA programs.

## Abbreviations

BEI	Bennett Environmental, Inc.
CATE	Citizens Against Toxic Exposure
CCAR	Coordinating Committee on Automotive Repair
CD	Compact Disc
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CSB	U.S. Chemical Safety and Hazard Investigation Board
CWTAP	Colonias Wastewater Treatment Assistance Program
DCAA	Defense Contract Audit Agency
ECO	Environmental Careers Organization, Inc.
EPA	U.S. Environmental Protection Agency
EPASS	EPA Personnel Access Security System
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GIAMD	Grants and Interagency Agreements Management Division
ID	Identification
MACT	Maximum Achievable Control Technology
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PP&E	Property, Plant, & Equipment
PRIA	Pesticide Registration Improvement Act
SFFAS	Statement of Federal Financial Accounting Standards
VPC	Vapor Phase Combustion

**Cover photos:** *Clockwise, from top left:* A combined sewer overflow outlet (EPA photo); sailing and fishing activities in the Chesapeake Bay (Chesapeake Bay Program photo); the capped contaminated soil mound at the Escambia Treating Company Superfund site (EPA OIG photo); a Passaic Valley Sewerage Commissioners plant (EPA OIG photo); construction of a wastewater treatment plant through the Colonias program (EPA photo); and a Seattle public hospital being constructed as part of the brownfields program (EPA OIG photo).

**To find out more about the U.S. Environmental Protection Agency Office of Inspector General and its activities, visit our Website at:**

**<http://www.epa.gov/oig>**



## Message to Congress

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In these difficult economic times, all of us are more acutely aware of the need for every government dollar to be spent wisely. Through our work, the Office of Inspector General has identified various instances where funds have been sitting idle for years. Properly using these funds for valid projects will not only save the taxpayers' dollars but will provide more funds that the U.S. Environmental Protection Agency (EPA) can direct to vital efforts to protect public health and the environment.

We found that EPA could reclassify, or transfer to the Superfund Trust Fund, up to \$47.8 million in special account funds for the Stringfellow Superfund site, located near Glen Avon, California. We discovered this as part of our review of EPA's use of special accounts that had high available balances or were at least 10 years old. EPA agreed to reclassify \$20 million in the near term and could potentially reclassify or transfer the rest to the Superfund Trust Fund by the end of Fiscal Year 2010.

Further, nearly 10 years after EPA awarded the last Colonias Wastewater Treatment Assistance Program grant to Texas, \$78 million still has not been spent. We recommended that EPA amend workplans and/or operating agreements to avoid delays in disbursing the funds, since delays reduce the purchasing power of the grant dollars and slow improvements. We also found that EPA needs to close old brownfields grants. While the Agency has made progress in this area, we noted 48 brownfields grants that were more than 5 years old for which funds were unspent. Of the almost \$11 million of unliquidated funds reviewed, EPA deobligated \$1.3 million during our audit and may deobligate at least \$6.8 million more.

To ensure progress at seven New Jersey-led Superfund clean-ups listed on the National Priorities List for over 20 years, EPA needs to improve controls and better coordinate clean-up efforts with New Jersey. If the Agency and New Jersey agree it would be beneficial, EPA should assume lead status.

We reviewed several voluntary greenhouse gas reduction programs and found weaknesses in data collection and reporting systems. There was also little assurance that firms are actively participating in the programs. From this, we determined that if EPA wishes to further reduce greenhouse gas emissions, it needs to consider additional policy options. EPA is also administering a voluntary program to reduce indoor residential exposure to radon. However, 20 years after passage of the 1988 Indoor Radon Abatement Act, exposure to indoor radon continues to grow. According to EPA, more than 20,000 Americans die from radon-related lung cancer every year – radon is the second leading cause of lung cancer in America, after smoking.

As a result of our joint investigation with other law enforcement organizations, a company president was found guilty of defrauding the U.S. Government and investors concerning a proposed alternative fuel additive. This included obtaining a \$3.6-million earmark grant from Congress for testing. EPA paid out approximately \$2 million of the grant.

The Office of Inspector General continued implementing a new audit follow-up strategy for strengthening both Office of Inspector General and Agency control processes for

closing out, accounting for, and completing agreed-to actions on our recommendations. Further, to comply with Inspector General Act reporting requirements and help EPA managers gain greater awareness of outstanding commitments for action, we have developed a “Compendium of Unimplemented Recommendations” that has already yielded significant measurable results in terms of improved accountability and actions taken.

The Office of Inspector General continues to work with the Agency on improving audit, inspection, and evaluation management and follow-up processes for recording, reporting, and ensuring that agreed-upon actions on our recommendations are completed. Further, we will continue to work with both the Agency and Congress as we pursue common goals of safeguarding human health and the environment while using resources more efficiently.

A handwritten signature in black ink, reading "Bill A. Roderick", written over a horizontal line.

Bill A. Roderick  
Deputy Inspector General

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## Inspector General Act

The Inspector General Act of 1978, as amended, requires the Inspector General to (1) conduct and supervise audits and investigations relating to programs and operations of the Agency; (2) provide leadership and coordination, and make recommendations designed to (a) promote economy, efficiency, and effectiveness; and (b) fully inform the Administrator and the Congress about problems and deficiencies identified by the Office of Inspector General relating to Agency programs and operations.

### *Index of Reporting Requirements* *Inspector General Act of 1978, as Amended*

Requirement	Subject	Pages
Section 4(a)(2)	Review of legislation and regulations	35-37
Section 5(a)(1)	Significant problems, abuses, and deficiencies	5-30
Section 5(a)(2)	Significant recommendations for corrective action	5-26
Section 5(a)(3)	Reports with corrective actions not completed	62
Section 5(a)(4)	Matters referred to prosecutive authorities	27-30, 39, 43-44
Section 5(a)(5)	Information or assistance refused	None
Section 5(a)(6)	List of reports issued	45-48
Section 5(a)(7)	Summaries of significant reports	5-26
Section 5(a)(8)	Audit, inspection, and evaluation reports - questioned costs	39-41, 44-48
Section 5(a)(9)	Audit, inspection, and evaluation reports - funds to be put to better use	39-41, 44-48
Section 5(a)(10)	Prior audit, inspection, and evaluation reports unresolved	40-41, 49-61
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

## OIG Management's Focus

### EPA OIG Reported Fiscal Year 2008 Key Management Challenges

On July 2, 2008, we provided the U.S. Environmental Protection Agency (EPA) Administrator with a list of key management challenges for Fiscal Year (FY) 2008. The Office of Inspector General (OIG) defines management challenges as a lack of capability derived from internal self-imposed constraints or, more likely, externally imposed constraints that prevent EPA from reacting effectively to a changing environment. The challenges, as listed below, are based primarily on our audit, inspection, evaluation, and investigative work.

- **Threat and Risk Assessments:** The Agency does not comprehensively assess threats to human health and the environment across media to ensure EPA's actions are planned, coordinated, designed, and budgeted to most efficiently and effectively address environmental risks. The fragmentary quality of EPA's approach continues because environmental laws often focus on single media or threats.
- **EPA's Organization and Infrastructure:** EPA maintains 204 offices and laboratories in 144 locations with over 18,000 staff. With diminishing resources, the autonomous nature of regional and local offices, and the growing pressure to expand its role globally, EPA will be challenged to assess the efficiency and effectiveness of its current structure to identify opportunities for consolidating and reducing operating costs.
- **Performance Measurement:** EPA must focus on the logic and design of its measures for success and efficiency, along with data standards and consistent definitions, to ensure that usable, accurate, timely, and meaningful information is used to evaluate and manage EPA programs, operations, processes, and results.
- **Water and Wastewater Infrastructure:** Drinking water and wastewater treatment systems are wearing out, and it will take huge investments to replace, repair, and construct facilities.
- **Meeting Homeland Security Requirements:** EPA needs to implement a strategy to effectively coordinate and address threats, including developing a scenario to identify resource needs, internal and external coordination points, and responsible and accountable entities.
- **Oversight of Delegations to States:** Implementing EPA's programs, enforcement of laws and regulations, and reporting on program performance has to a large extent been delegated to States and tribes, with EPA retaining oversight responsibility. However, inconsistent capacity and interpretation of responsibility among State, local, and tribal entities limits accountability for and compliance with environmental programs and laws.
- **Chesapeake Bay Program:** After more than 20 years of effort by federal, State, and local governments, Bay waters remain degraded and required nutrient and

sediment reductions will not be met by the 2010 target. EPA needs to institute management controls ensuring that actions to manage land development, agricultural runoff, nutrient reduction technology, and air emissions are implemented, and that consistent sources of funding are identified by EPA partners.

- **Voluntary Programs – Update:** EPA must ensure that applying voluntary approaches and innovative or alternative practices to provide flexible, collaborative, and market-driven solutions for measurable results are managed using standards, consistent processes, and verifiable data, to ensure that programs are efficiently and effectively providing intended and claimed environmental benefits.

### **Agency Has Agreed to Make Improvements as a Result of OIG Work**

During this reporting period, EPA agreed to take many actions as a result of OIG work. The following actions relate to the OIG's two external goals; further details on each are provided throughout this semiannual report.

#### ***To contribute to improved human health and environmental quality:***

- For seven New Jersey Superfund sites, EPA agreed to assume a lead role for those sites where both New Jersey and EPA agree it would be beneficial.
- EPA agreed to review \$78 million in grants to Texas for the Colonias Wastewater Treatment Assistance Program that has not been spent, and identify specific projects for which those funds should be used.
- EPA agreed to develop a strategy for achieving the long-term goal of the Indoor Radon Abatement Act that considers using the authorities authorized by Congress or explain its alternative strategy.
- For Greenhouse Gas voluntary programs, EPA agreed to review emission reduction cost analyses annually and update as needed.

#### ***To improve EPA's management, accountability, and program operations:***

- EPA agreed to reclassify \$20 million in special funds for the Stringfellow Superfund site in California for use at other sites, and may reclassify as much as \$27.8 million more.
- EPA has already deobligated \$1.3 million in brownfields grants more than 5 years old, and may deobligate up to \$6.8 million more.
- EPA may save up to \$3.2 million in questioned costs under five grants to a watersheds improvement organization because of unallowable outlays.
- EPA is looking into savings of up to \$2.5 million in Special Appropriation Act Project funds for several grants.

Improvements resulting in potential monetary benefits result in more funds being available to contribute to improved human health and environmental quality.

## OIG Hiring Initiative Making Progress

In December 2007, Congress provided the EPA OIG with a needed but unanticipated Continuing Resolution budget funding level that was above both the FY 2007 enacted and FY 2008 President's Budget levels. In accordance with a congressional directive pertaining to the Consolidated Appropriations Act for 2008, the OIG commenced a hiring initiative to increase its staffing level to that of prior years, consistent with the available funds.

Difficulties with the hiring process hindered the OIG's efforts to increase its staffing level as quickly as anticipated. However, the OIG was able to hire 35 new employees during FY 2008, and an additional 41 staffing actions were in various stages of the recruitment and selection process at the end of the fiscal year.

Below is a summary of the OIG actual and projected resource levels/expenditures for FYs 2000 through 2009.

<b>Historical Budget and Manpower Summary</b>			
<b>Fiscal Year</b>	<b>Enacted Budget (after rescissions where applicable)</b>	<b>On-Board Staff (as of October 1)</b>	<b>Expenditures (includes carryover)</b>
2000	\$43,379,700	340	\$39,384,100
2001	\$45,493,700	351	\$41,050,807
2002	\$45,886,000	354	\$45,238,608
2003	\$48,425,200	348	\$46,023,048
2004	\$50,422,800	363	\$52,212,862
2005	\$50,542,400	365	\$61,733,781
2006	\$50,241,000	350	\$49,583,584
2007	\$50,459,000	326	\$48,658,217
2008	\$52,585,000	290	\$52,231,690
2009	\$52,585,000*	304	\$56,362,400**

\* H.R. 2638, the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009

\*\* Projected

Sources: OIG archives and analysis and EPA Integrated Financial Management System

The lag in the hiring process created a gap between funding and staffing levels. The OIG partially compensated for the gap in specialized skills by contracting and entering into interagency agreements for specialty evaluative services. Additionally, FY 2008 funds planned for the unfulfilled staffing level were carried over into 2009. The OIG will use these carryover funds, in addition to new FY 2009 funding, to support increased staffing levels as much as possible.

## Congressional Requests Addressed, Testimony Provided

As the culmination of various reviews stemming from a U.S. Senator's 2005 request for information on the Chesapeake Bay watershed, we issued a summary report on the challenges facing Bay partners (see page 6). Despite many noteworthy achievements, the Bay remains degraded, and EPA should better report on these conditions to Congress and

the community. The Bay program has fallen significantly short of its goals, and partners need to make major changes if goals are to be met. Current efforts will not enable partners to meet their goal of restoring the Bay by 2010. In particular, Bay partners need to address uncontrolled land development, limited implementation of agricultural conservation practices, and limited control over air emissions affecting water quality.

We also followed up on a September 2005 report on grants accountability that had been conducted as a result of a request by the then Chairman of the House Committee on Transportation and Infrastructure. We evaluated whether EPA held supervisors and their project officers accountable for grants management responsibilities. We found that EPA had implemented the corrective action plan in response to our prior report. Details are on page 18.

On July 30, 2008, the Assistant Inspector General for Program Evaluation testified before the House Transportation and Infrastructure Subcommittee on Water Resources and Environment during a hearing on protecting and restoring the Chesapeake Bay. On September 25, 2008, the Assistant Inspector General for Investigations testified before the Senate Environment and Public Works Committee on the OIG's investigation of EPA clean-up actions at the Libby, Montana, Superfund site. Details begin on page 31.

## Significant OIG Activity

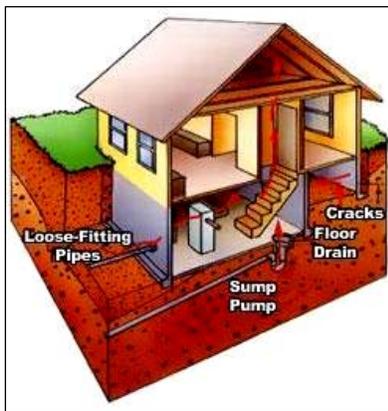
### Air

*Helping to make air safe and healthy to breathe.*

#### Exposure to Indoor Radon Continues to Grow

Nearly two decades after passage of the 1988 Indoor Radon Abatement Act, exposure to indoor radon continues to grow. Efforts to reduce exposure through mitigation or building with radon-resistant new construction have not kept pace.

Indoor residential exposure occurs when radon gas enters through cracks in floors, walls, and construction joints, or gaps in foundations around pipes, wires, and pumps. Indoor radon is the leading cause of lung cancer among non-smokers and the second leading cause of lung cancer in America, according to EPA and the U.S. Surgeon General. According to EPA, more than 20,000 Americans die from radon-related lung cancer every year.



As shown in the illustration, radon can enter homes via many paths (courtesy U.S. Geological Survey).

Of 6.7 million new single family detached homes built nationwide between 2001 and 2005, only about 469,000 incorporated radon-resistant features. Of 76.1 million existing single family homes in the United States in 2005, only about 2.1 million had radon-reducing features in place.

The Indoor Radon Abatement Act established the goal that indoor air be as free of radon as outdoor air. Since 1988, EPA has administered a voluntary program to reduce exposure to indoor radon by promoting awareness, testing, installing radon mitigation systems in existing homes, and using radon-resistant new construction techniques. However, EPA's ability to achieve results with a voluntary program is limited. EPA has not decided how to use all the authorities or tools available to it to achieve the Act's goals. Also, EPA has not been reporting program results in relation to homes at risk in its performance reporting.

We recommended that EPA develop a strategy for achieving the long-term goal of the Indoor Radon Abatement Act that considered using the authorities authorized by Congress or explain its alternative strategy, which it agreed to do. We also recommended that EPA identify limitations to meeting the goal to Congress. EPA agreed to share the augmented strategy, including any limitations it may cite, with staff of the appropriate congressional committees. Further, we recommended that EPA revise its performance measuring data to include metrics that better measure the potential radon problem, which it agreed to do. EPA also agreed to propose revisions on how it reports results for the Indoor Radon Program in its Annual Performance and Accountability Report.

*(Report No. 08-P-0174, More Action Needed to Protect Public from Indoor Radon Risks, June 3, 2008 – Report Cost: \$629,228)*

**For details on an additional air issue, please refer to page 12, "Voluntary Greenhouse Gas Reduction Programs Have Limited Potential."**

## Water

*Helping to ensure that drinking water is safe and waterbodies are protected.*

### EPA Needs to Better Report Chesapeake Bay Challenges

Despite many noteworthy achievements by the Chesapeake Bay partners, the Bay remains degraded, resulting in continuing threats to aquatic life and human health. EPA should better report on these conditions to Congress and the community.

The Chesapeake Bay is North America's largest and most biologically diverse estuary and provides the area with economic and environmental benefits. We have already published several reports that focused on specific areas and made recommendations, as a result of a request from a U.S. Senator from Maryland. This report summarizes some key overall issues that need the attention of the EPA Administrator.

Through its reporting, EPA could better advise Congress and the Chesapeake Bay community that (a) the Bay program is significantly short of its goals, and (b) partners need to make major changes if goals are to be met. Current efforts will not enable partners to meet their goal of restoring the Bay by 2010. Further, new challenges are emerging. Bay partners need to address:

- uncontrolled land development
- limited implementation of agricultural conservation practices
- limited control over air emissions affecting Bay water quality

EPA does not have the resources, tools, or authorities to fully address all of these challenges. Farm policies, local land development decisions, and individual lifestyles have huge impacts on the amount of pollution being discharged to the Bay. We recommended that the EPA Administrator improve reporting to Congress and the public, develop a strategy to further engage local governments and watershed organizations in efforts to clean up the Bay, and provide the Chesapeake Bay Program Office with the opportunity to comment on any proposed rulemakings related to pertinent air issues. EPA concurred with our recommendations.

*(Report No. 08-P-0199, EPA Needs to Better Report Chesapeake Bay Challenges – A Summary Report, July 14, 2008 – Report Cost: \$253,615)*



Sailing and fishing are popular recreational activities in the Chesapeake Bay (photo courtesy Chesapeake Bay Program).

## EPA Needs to Improve Oversight of Tribal Water Systems

Through a review of EPA records and independent OIG sample results, we determined that selected tribal drinking water supplies generally met regulatory requirements. However, internal control deficiencies existed in administering EPA's oversight of tribal community water systems in two of the five regions we reviewed.



Nano-filtration system at a tribal drinking water facility (EPA OIG photo).

EPA, rather than the States, has the responsibility for protecting human health and the environment on tribal lands. Approximately 600 tribal community water systems serve an estimated 622,000 people. We sought to verify, through independently collected samples, that these tribal water systems did not exceed drinking water regulatory limits. Of the approximately 2,300 samples analyzed, only 7 were above the limits. To varying degrees, tribal drinking water records in four of the five regions we reviewed were incomplete due to a failure to maintain oversight of system operations and/or poor records management.

We recommended that EPA establish standard operating procedures in coordination with regional offices, direct regions to issue monitoring and reporting violations, and take appropriate enforcement action when necessary. The Agency agreed with our recommendations.

*(Report No. 08-P-0266, EPA Assisting Tribal Water Systems but Needs to Improve Oversight, September 16, 2008 – Report Cost: \$830,903)*

**For details on additional water issues, please refer to:**

- Page 16, “Millions of Federal Dollars Remain for Colonias Projects.”
- Page 21, “Reviews of Special Appropriation Act Project Grants Note Potential Savings.”
- Page 31, “Assistant Inspector General Testifies on EPA’s Role in Restoring the Chesapeake Bay.”

## Superfund/Land

*Improving waste management and clean-up.*

### EPA Can Reclassify or Transfer up to \$47.8 Million from Stringfellow Site

By FY 2010, EPA Region 9 could reclassify, or transfer to the Hazardous Substance Superfund Trust Fund, up to \$47.8 million in special account funds for the Stringfellow Superfund site, located near Glen Avon, California. This would potentially allow \$47.8 million to be available for better use in Region 9's Superfund program or elsewhere in the Nation.

EPA retains funds received in settlements in site-specific accounts, called "special accounts." The OIG has been evaluating EPA's use of special accounts that had high available balances or were at least 10 years old. The special accounts for the Stringfellow Superfund site had a high available balance of \$117.8 million.



The northern former disposal area in Zone 1 for the Stringfellow Superfund site (EPA photo).

We recommended that the Region 9 Administrator reclassify or transfer to the Superfund Trust Fund, as appropriate, \$47.8 million of the Stringfellow special accounts. In response to our draft report, EPA agreed to reclassify \$20 million by the end of FY 2008. The Agency stated that the remaining amount (up to \$27.8 million) was a "buffer for unknowns," some amount of which will be needed for oversight costs, and indicated that it could potentially reclassify or transfer this remaining amount to the Superfund Trust Fund (plus any earned interest) by the end of FY 2010.

The \$70 million remaining in the accounts (out of \$117.8 million) are to cover potential EPA clean-up costs if the responsible party (the State of California) is unable to pay. In a future report, the OIG plans to address EPA's management of funds held back for these purposes.

*(Report No. 08-P-0196, Making Better Use of Stringfellow Superfund Special Accounts, July 9, 2008 – Report cost part of overall report to follow)*

### Improved Controls Needed to Reduce Superfund Backlogs

Neither EPA nor the New Jersey Department of Environmental Protection took actions needed to ensure progress at seven New Jersey-led Superfund site clean-ups listed on the National Priorities List for over 20 years.

The Office of Management and Budget (OMB) had asked us to evaluate EPA's management of the backlog of Superfund sites. We focused on New Jersey because it had 38 of the 144 non-federal sites on the National Priorities List as of February 2007 that were over 20 years old but had still not reached construction completion. That was 26 percent of the sites, more than any other State.

Delays at the New Jersey sites occurred primarily because EPA Region 2 and New Jersey did not use available authorities to prevent delays and implement internal controls. Region 2 and New Jersey did not implement agreements on clean-up milestones, Agency responsibilities, and enforcement actions. Continued clean-up delays will result in increased costs, prevent appropriate land reuse and redevelopment, and perpetuate concern about the risks associated with living near these sites.

For the seven sites reviewed, various interim clean-up actions had been taken to address the impact of site contaminants on human health. However, the site progress profiles on EPA's public Website did not include these interim actions as part of the status of clean-up progress. As a result, progress being made on sites may not be readily communicated to the public.

We recommended that EPA Region 2 coordinate with New Jersey officials cleaning up specified sites more than 20 years old. Region 2 should assume lead status from New Jersey for those sites where both agencies agree it would be beneficial. We also recommended that EPA improve Internet site profiles as needed. EPA agreed with all of our recommendations.

*(Report No. 08-P-0169, Improved Controls Would Reduce Superfund Backlogs, June 2, 2008 – Report Cost: \$986,320)*

#### Seven New Jersey National Priorities List Sites Reviewed Over 20 Year Old

- **Brick Township Landfill, Brick Township, Ocean County**
- **Evor Phillips Leasing Company, Old Bridge Township, Middlesex County**
- **Hercules, Inc., Gibbstown, Gloucester County**
- **American Cyanamid, Bridgewater Township, Somerset County**
- **Jones Industrial Services Landfill, Inc., South Brunswick, Middlesex County**
- **Universal Oil Products, East Rutherford, Bergen County**
- **Ventron/Velsicol, Wood Ridge Borough, Bergen County**

Source: EPA OIG analysis

## EPA Needs to Track Compliance with Superfund Clean-up Requirements

**EPA lacks the internal controls necessary to monitor compliance with Superfund enforcement instruments nationally.**

As of September 30, 2007, Superfund had almost 3,400 active enforcement instruments to ensure clean-ups at National Priorities List sites. The instruments are authorities to compel responsible parties to conduct and pay for Superfund clean-ups; they include settlement agreements and unilateral administrative orders.

EPA does not nationally compile or track data on substantial noncompliance based on the enforcement instruments. In 2000, EPA acknowledged it needed to improve its enforcement data and wrote a report on the subject, but has yet to implement its own recommendation for regions to improve data. As a result, the Agency lacks the internal controls necessary to monitor compliance with Superfund instruments nationally.

We recommended that EPA track and monitor substantial noncompliance by using and modifying, as appropriate, the existing Superfund information system. We also recommended that EPA establish enforceable response actions to address contamination

from the Muskego Landfill Site, in Waukesha County, Wisconsin. EPA agreed with our recommendations and proposed responsive actions.

*(Report No. 08-P-0141, EPA Needs to Track Compliance with Superfund Cleanup Requirements, April 28, 2008 – Report Cost: \$326,997)*

## Superfund Site Deletions Should Undergo Quality Assurance Review

As of September 2007, EPA had deleted 322 sites from the Superfund National Priorities List. However, of the eight sites we reviewed, EPA's documentation for deleting three of those sites was not consistent with Agency guidance.

Generally, EPA may delete a site from the National Priorities List either when all appropriate responses under the Comprehensive Environmental Response, Compensation, and Liability Act have been implemented or a response under the Act is not appropriate.

For three of the eight sites reviewed, documentation on the Agency's decision to delete the sites was not consistent with EPA guidance. Two of these sites also were not supported by data and analysis. Therefore, EPA did not ensure clean-up activities and goals were complete and remedies were fully protecting human health and the environment before deleting those two sites.

EPA has conducted limited national oversight of deletion decisions made by EPA's regional offices. Not all regions submitted required information, so when decisions were made EPA did not verify that sites met criteria.

We recommended that EPA implement a national quality assurance process that ensures deletion decisions meet criteria and are supported. EPA agreed with our recommendations.

*(Report No. 08-P-0235, EPA Decisions to Delete Superfund Sites Should Undergo Quality Assurance Review, August 20, 2008 – Report Cost: \$809,869)*

### EPA's Deletion Process

- Complete final close-out report for site
- Prepare draft notice of intent to delete
- Obtain State concurrence for deletion
- Compile the deletion docket
- Publish notice of intent to delete and provide 30-day public comment period
- Prepare and place final responsiveness summary in deletion docket and public repositories
- Publish notice of deletion

Source: Office of Solid Waste and Emergency Response Directive 9320.2-09A-P, January 2000, *Close Out Procedures for National Priority Sites*

For details on additional Superfund/land issues, please refer to:

- Page 14, "Follow-up at Escambia Superfund Site Found Most Recommendations Implemented."
- Page 14, "Corrective Actions Generally Implemented at Stauffer Superfund Site."
- Page 17, "EPA Needs to Continue Reducing Unliquidated Obligations in Brownfields Grants."
- Page 23, "Corrective Actions Not Complete for Undistributed Superfund Site Costs."
- Page 28, "Pleas Entered in Bid Rigging Case."
- Page 32, "Assistant Inspector General Testifies on Investigation of EPA's Clean-up of Libby, Montana, Superfund Site."

## Enforcement

*Helping to improve compliance with environmental requirements.*

### Strategic Planning for Priority Enforcement Areas Initiated, but Key Elements Missing

EPA has instituted a process for strategic planning in its national enforcement priority areas. However, the plans we reviewed were missing key elements to monitor progress and accomplishments and efficiently utilize Agency resources.



Examples of the three enforcement priority areas reviewed, from top: an industrial plant emitting air toxics; a combined sewer overflow outlet; and a cement plant engaged in mineral processing (EPA photos).

EPA's Office of Enforcement and Compliance Assurance (OECA) focuses on core program activities and a limited number of national priorities. Through the national priorities, OECA directs its resources to significant environmental problems where patterns of noncompliance have been established and a direct federal role is needed.

OECA has developed strategic planning guidance and a strategy template to facilitate continual reviewing and improving of the strategies. The FYs 2008-2010 strategic plans we reviewed – for air toxics, combined sewer overflows, and mineral processing – contain many of the elements required in a complete plan. However, strategies for all three lack a full range of measures to monitor progress and achievements. Two strategies lack detailed exit plans. Also, the combined sewer overflow strategy does not address the States' key roles in attaining the strategy's overall goal. The absence of these elements hinders OECA from monitoring progress and achieving desired results in a timely and efficient manner.

We recommended that EPA issue a policy that requires strategy documents for the priority areas to include the key elements, and EPA concurred. We also recommended that EPA develop a cost-effective methodology for measuring resource inputs in the national priorities, but EPA did not agree with that recommendation.

*(Report No. 08-P-0278, EPA Has Initiated Strategic Planning for Priority Enforcement Areas, but Key Elements Still Needed, September 25, 2008 – Report Cost: \$544,912)*

**For details on additional enforcement issues, please refer to:**

- Page 7, "EPA Needs to Improve Oversight of Tribal Water Systems."
- Page 9, "EPA Needs to Track Compliance with Superfund Clean-up Requirements."

## Cross-Media

*Evaluating non-traditional approaches to protecting the environment and challenges that cut across programs.*

### Voluntary Greenhouse Gas Reduction Programs Have Limited Potential

The ability of voluntary greenhouse gas reduction programs to reduce emissions is limited; reporting and data limits impede assessing these programs.

EPA has initiated greenhouse gas voluntary programs to help reduce future greenhouse gas emissions. We found that the greatest barriers to participating in these programs were the perceived emission reduction costs and reporting requirements. Also, it is unlikely that these programs can reduce more than 19 percent of the projected 2010 greenhouse gas emissions for their industry sectors.

Of the 11 programs we reviewed, 8 showed weaknesses in their data collection and reporting systems. None of the programs' memoranda of understanding establish consequences for failure to report, and generally provided little assurance that firms are actively participating in the program.

We recommended that EPA review emission reduction cost analyses annually. For programs that recruit and enroll participants, EPA should adopt written partnership agreements requiring stronger data quality provisions. For programs that do not recruit and enroll participants, EPA should develop a policy or procedure that specifically identifies how these programs link their reported outcomes to program efforts. EPA concurred with most of the recommendations.

*(Report No. 08-P-0206, Voluntary Greenhouse Gas Reduction Programs Have Limited Potential, July 23, 2008 – Report Cost: \$445,318)*

#### Voluntary Greenhouse Gas Programs Reviewed

- AgSTAR
- Coalbed Methane Outreach Program
- Coal Combustion Partnership Program
- Hydrofluorocarbon-23 Program
- Landfill Methane Outreach Program
- Natural Gas STAR
- Perfluorocarbon Reduction/Climate Partnership for the Semiconductor Industry
- Sulfur Hexafluoride Emission Reduction Program for the Electrical Power Systems
- Sulfur Hexafluoride Emission Reduction Program for the Magnesium Industry
- Voluntary Aluminum Industrial Partnership
- WasteWise

Source: Websites of EPA Partnership Programs

## Border 2012 Program Needs to Improve Program Management

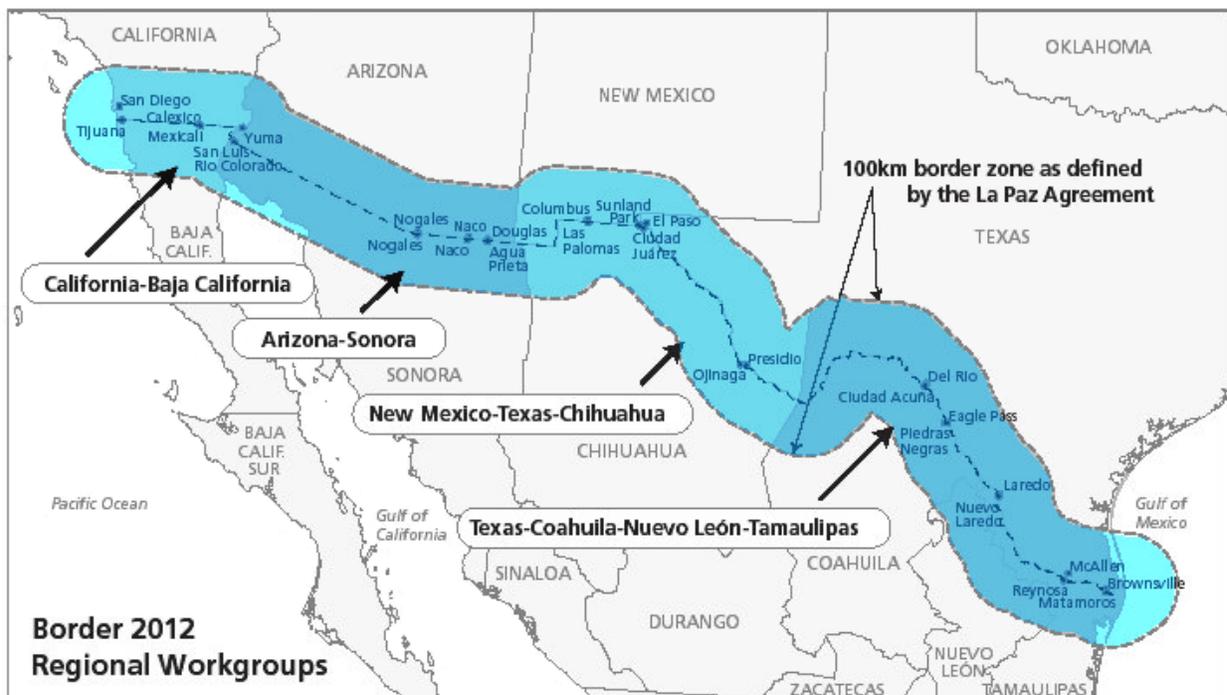
The current organizational structure of the Border 2012 Program allows it to achieve a collaborative relationship at the U.S.-Mexico border and address environmental issues. However, management controls do not ensure that project and program results are documented or that Border 2012 goals are achieved.

The Border 2012 Program emphasizes a bottom-up, regional approach to address environmental issues at the U.S.-Mexico border. The program was launched in 2002 as a 10-year joint effort to improve the environment and protect the health of the nearly 12 million people living along the more than 2,000-mile border.

We found that Border 2012 lacks a systematic roadmap that defines the relationships between resources, activities, and intended outcomes. We also found a lack of management oversight regarding the program process toward meeting goals and objectives. Current performance measures focus on outputs rather than outcomes, and several measures were not assessable.

We recommended that the Agency develop a strategic plan, issue guidance to better support program results, improve performance measures, and develop criteria for determining what constitutes successful completion of program goals. The Agency concurred with all our recommendations.

*(Report No. 08-P-0245, Border 2012 Program Needs to Improve Program Management to Ensure Results, September 3, 2008 – Report Cost: \$442,794)*



A map of the U.S.-Mexico border region (EPA Website).

## Public Liaison and Special Reviews

*Addressing specific concerns of the public.*

### Follow-up at Escambia Superfund Site Found Most Recommendations Implemented

EPA Region 4 implemented all but one of our prior report recommendations at the Escambia Treating Company Superfund site in Pensacola, Florida.

Our September 2004 report noted various areas needing improving at the Escambia site, an abandoned wood preserving facility where various health risks were identified and from which about 358 households were permanently relocated. We had made several recommendations in that prior report.

In our follow-up review, we found that EPA and the U.S. Army Corps of Engineers monitored the housing inspection process, updated the Community Involvement Plan, conducted public availability sessions with the public, and provided the administrative record compact discs (CDs) to the site repository. Overall, residents, local governments, and businesses indicated Region 4 openly communicated and provided timely information regarding the site.



The contaminated soil mound contained within a high density polyethylene cap at the Escambia Treating Company Superfund site (EPA OIG photo).

Although Region 4 indicated it had provided electronic files containing the site administrative record to Citizens Against Toxic Exposure (CATE), an environmental group, CATE's current president told us during the follow-up review that the organization did not receive any CDs from the Region. The Region was unable to locate any evidence (e.g., a copy of a transmittal letter) that it

had submitted the CDs to CATE. We recommended that EPA Region 4 provide copies of the updated administrative record CDs to CATE; the Region concurred and indicated it provided the CDs on May 8, 2008.

*(Report No. 08-P-0200, Follow-up Review on Progress at Escambia Treating Company Superfund Site, Pensacola, Florida, July 14, 2008 – Report Cost: \$162,970)*

### Corrective Actions Generally Implemented at Stauffer Superfund Site

EPA Region 4 generally made corrective actions in response to a 2004 EPA OIG report on the Stauffer Chemical Company Superfund Site, Tarpon Spring, Florida.

The plant was used from 1947 to 1981 to process phosphorous. EPA approved leaving the contaminants at the site after consolidating and solidifying them and installing a cap. In June 2004, the OIG identified actions needed to allay public concerns about clean-up actions proposed for the site.

Under a consent decree, Stauffer is preparing a design for EPA-approved clean-up actions. In December 2007, the design was 30-percent complete. Region 4 had revised the community involvement plan for the site to include some community activity during the



The South Parcel of the Stauffer Chemical Company Superfund Site (EPA OIG photo).

design phase, and these activities were being performed. Also, Region 4 is examining whether karst (limestone formation) was present at the clean-up site and could affect the site.

We did not make any recommendations for further corrective actions.

*(Report No. 08-P-0264, Corrective Actions Were Generally Implemented at Stauffer Chemical Company Superfund Site, Tarpon Springs, Florida, September 16, 2008 – Report Cost: \$165,151)*

## Grants

*Improving EPA's use of assistance agreements.*

### Millions of Federal Dollars Remain for Colonias Projects

Nearly 10 years after EPA Region 6 awarded the last Colonias Wastewater Treatment Assistance Program (CWTAP) grant to the Texas Water Development Board, \$78 million still has not been spent.

A colonia is a residential area along the border that may lack some of the most basic living necessities, such as drinking water and sewer systems, electricity, paved roads, and safe and sanitary housing. These conditions can pose potentially serious consequences for public health and quality of life.

We conducted an audit of the CWTAP because of a large unliquidated obligation balance in the program almost a decade after the last grant had been awarded. EPA Region 6 had awarded five assistance agreements (grants) totaling \$300 million to the Texas Water Development Board under CWTAP between FYs 1993 through 1999. The grant funds, combined with State funds, were to be used to construct water infrastructure projects in colonias along the border with Mexico.

As of September 2007, 24 colonias projects were completed and operating. When the remaining 17 projects are completed, more than 150,000 residents will benefit. However, if Region 6 does not improve its oversight of the program, the funds will probably not be fully spent by the current CWTAP grant fund drawdown projection of 2010. Every delay in disbursing CWTAP funds reduces the purchasing power of the grant dollars and delays improvements.



Construction of a wastewater treatment plant in Tornillo, Texas, funded through the Colonias Wastewater Treatment Assistance Program (EPA photo).

We recommended that the Regional Administrator for Region 6 amend workplans and/or operating agreements for open CWTAP grants to include specific projects, schedules, and dollar amounts. We also recommended developing a policy that specifies a process for taking corrective actions when projects are delayed. EPA concurred with our recommendations.

*(Report No. 08-P-0184, Millions of Federal Dollars Remain for Colonias Projects, June 23, 2008 – Report Cost: \$90,169)*

## **Incurred Outlays of \$3.2 Million by Canaan Valley Institute Questioned**

We questioned \$3.2 million reported by the Canaan Valley Institute, Inc., because of unallowable outlays for indirect, contractual, and in-kind costs.

EPA awarded five cooperative agreements to the Institute, headquartered in Thomas, West Virginia, to provide enhancements to the Mid-Atlantic Highland environment and economic sustainability, and continued support for the Highland action plan. The recipient works to improve watersheds in Maryland, Pennsylvania, Virginia, and West Virginia.

We questioned \$3,235,927 of the \$6,686,424 in reported net outlays because the recipient reported unallowable outlays for indirect, contractual, and in-kind costs. For example, the recipient claimed indirect costs without approved indirect rates, and did not credit all program income back to the agreements.

We recommended that EPA recover questioned outlays of \$3,218,661 unless the recipient provides sufficient documentation to support the costs. EPA should also require the recipient to prepare and submit its indirect cost rate proposals for negotiation. The recipient should also credit \$17,266 in program income to the agreements. The recipient agreed with some, but not all, of our recommendations.

*(Report No. 08-4-0156, Canaan Valley Institute, Inc., Incurred Cost Audit of Five EPA Cooperative Agreements, May 19, 2008 – Report Cost: \$369,957)*

## **EPA Needs to Continue Reducing Unliquidated Obligations in Brownfields Grants**

EPA recently emphasized the need to close old brownfields grants, and decreased unliquidated obligations from about \$29.8 million in November 2007 to \$20.9 million in March 2008. Nonetheless, 48 grants more than 5 years old were still open as of March 2008, and funds were sitting idle.



Construction taking place at a Seattle public hospital that is a cleaned-up brownfields site (EPA OIG photo).

A brownfield is an abandoned property that parties would like to redevelop or reuse but the property might be contaminated by hazardous substances or pollutants. EPA provides funds to local governments to clean up and reuse brownfields.

Of the almost \$11 million of unliquidated funds reviewed in Regions 2 and 4 for brownfields projects, the regions deobligated \$1.3 million (almost 12 percent) during our audit. Up to an additional \$6.8 million could be available for deobligation for the 21 grants that had ended or were scheduled to end by September 30, 2008. Deobligated funds from these grants can be put back into the national Superfund account and thus be used for other projects.

EPA Headquarters has not provided specific guidelines on when grants should be terminated, nor has it defined inadequate progress for grant performance. Regions have generally allowed time extensions when grantees requested them.

We recommended that EPA Headquarters establish a process for reviewing nonperforming grants, and develop procedures for terminating and deobligating funds from those grants. We also recommended that regions deobligate the remaining funds noted. EPA agreed with our recommendations and is establishing needed procedures.

*(Report No. 08-P-0265, EPA Should Continue Efforts to Reduce Unliquidated Obligations in Brownfields Pilot Grants, September 16, 2008 – Report Cost: \$229,829)*

## **EPA Actions Should Lead to Improved Grants Accountability**

EPA implemented the corrective action plan it prepared in response to a September 2005 OIG report on grants accountability.

In February 2005, the Chairman of the House Committee on Transportation and Infrastructure asked us to evaluate whether EPA held supervisors and their project officers accountable for grants management responsibilities. During the course of that audit, we found that EPA managers were not holding personnel accountable.

We conducted this follow-up review in 2008 to determine whether EPA followed through in completing the corrective action plan steps presented in response to our 2005 audit report and, ultimately, whether EPA addressed the recommendations. We found that:

- EPA established a process to measure performance,
- Project officers and supervisors reported discussing grants management during performance evaluations,
- EPA communicated weaknesses identified during management reviews to appropriate project officers and supervisors, and
- EPA tracked recommendations in the management audit tracking system.

These actions should lead to improved grants management accountability. Our follow-up audit did not contain any recommendations.

*(Report No. 08-P-0276, EPA Actions Should Lead to Improved Grants Accountability, September 24, 2008 – Report Cost: \$200,145)*

## **Region 8 Needs to Better Track Oglala Sioux Tribe Corrective Actions**

EPA Region 8 continues to take actions to resolve the internal control findings in single audit reports of the Oglala Sioux Tribe. However, the Region did not monitor implementation of the corrective actions in the Agency's tracking system until all corrective actions were completed.

The OIG is increasing its focus on whether audit report recommendations are being implemented. In this case, we looked at whether the recommendations in the FYs 2000-2003 single audit reports for the Oglala Sioux Tribe had been implemented. The FY 2003 single audit report listed 43 repeat findings that remained unresolved since

2000. The OIG had questioned \$2.5 million that EPA awarded to the Tribe during the audited time frame.

Region 8 identified the Tribe as a high risk grantee, requested a corrective action plan, and reviewed accounting documentation. However, the Region did not monitor the corrective actions in the Agency's Management Audit Tracking System until all actions were completed. Thus, the Agency did not accurately report on the status of unimplemented actions.

Region 8 did not obtain sufficient documentation to support resolving \$2.5 million in questioned costs. The documentation for resolving the questioned costs was not from the Tribe's official accounting system and did not reconcile to the costs claimed. Region 8 did not resolve these issues before concluding that the Tribe incurred the costs. Without sufficient documentation to support resolving questioned costs, the Region cannot ensure the costs were allowable under the EPA grants.

Region 8 did not agree with our recommendation that the corrective actions needed to be tracked in the Management Audit Tracking System and believes it took sufficient action to address questioned costs. In the future, Region 8 needs to ensure costs are fully supported before making its final determination.

*(Report No. 08-P-0213, Oglala Sioux Single Audits – Corrective Actions Taken But Improvements Needed in Resolving Costs, July 28, 2008 – Report Cost: \$82,955)*

### **Better Disclosure of Indirect Costs Needed for National Caucus and Center on Black Aged**

The National Caucus and Center on Black Aged, Inc., which received eight cooperative agreements from EPA to provide employment to senior individuals, did not clearly disclose its allocations in indirect cost proposals.

The recipient's Quarterly Financial Status Reports, as of September 30, 2007, presented fairly, in all material respects, the allowable outlays incurred in accordance with the terms and conditions of the agreements and applicable laws and regulations. We found, however, that the recipient did not clearly disclose its allocation methods in its indirect cost proposals. The recipient also charged employee leave costs to grants disproportionately to the amount of time employees spent on each assistance agreement.

We recommended that the Center revise its indirect cost proposals to clearly explain the process used to allocate costs to its agreements, have the revised proposals approved by its cognizant federal agency, and use a more equitable method for allocating employee paid absences to agreements. The recipient agreed with our recommendations.

*(Report No. 08-I-0277, National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements, September 25, 2008 – Report Cost: \$122,954)*

**For details on additional grants issues, please refer to:**

- Page 21, "Reviews of Special Appropriation Act Project Grants Note Potential Savings."
- Page 30, "Innovative Techniques Can be Used for State Monitoring of Revolving Funds."

## Contracts

*Improving EPA's use of contracts.*

### **EPA Can Improve Awarding of Noncompetitive Contracts**

While EPA's most recent competition report made several recommendations to strengthen EPA's competition practices, additional measures would help to further improve compliance with the Federal Acquisition Regulation and EPA policy.

One of the goals of federal contracting is to promote competition when buying goods and services. In limited circumstances, however, federal agencies are authorized to award contracts without providing for full and open competition. The Federal Acquisition Regulation has established specific procedures for agencies to follow under these circumstances.

We found Justifications for Other than Full and Open Competition that were not approved at the appropriate level. Further, 8 of the 15 justifications we reviewed were not prepared according to federal requirements. These conditions occurred because either EPA did not have effective internal controls or existing controls were not followed.

We recommended several ways to improve the process, and EPA agreed with our recommendations and provided adequate corrective action plans.

*(Report No. 08-P-0186, EPA Can Improve the Awarding of Noncompetitive Contracts, June 30, 2008 – Report Cost: \$313,813)*

**For details on additional contracts issues, please refer to page 22, "Labor and Subcontract Cost Verification Reviews Conducted."**

## Forensic Audits

*Identifying fraud, waste, and abuse in grants and contracts.*

### Reviews of Special Appropriation Act Project Grants Note Potential Savings

We initiated reviews of costs claimed under Special Appropriation Act Project grants, and noted various instances of ineligible costs claimed.

Since 1992, EPA has awarded over 5,000 Special Appropriation Act Project grants, totaling over \$5 billion, based on congressional earmarks. EPA awarded these grants to State and local governments and quasi-governmental agencies (such as water improvement districts) to assist in planning, designing, and constructing wastewater and drinking water facilities.

Starting in FY 2007, we began reviewing selected Special Appropriation Act Project grants awarded in Regions 2, 3, 4, 5, 8, 9, and 10. To date, we have identified \$6,009,967 in ineligible and questioned costs claimed that can be recovered, including \$2,553,690 identified in reports published during the semiannual reporting period ending September 30, 2008. We identified the following during the latest semiannual reporting period.

- The **Village of Wellsville, Ohio**, did not meet federal requirements for financial management. In particular, the grantee did not have support for required matching costs and received grant funds it never expended. The grantee also made two improper procurements for engineering services, and did not maintain acceptable procurement or contract administration systems. We recommended that EPA Region 5 recover \$1,241,591 in questioned costs, require the re-bidding of two engineering contracts, and classify the Village as a high-risk grantee until needed improvements are made. (*Report No. 08-2-0204, Village of Wellsville, Ohio – Ineligible Costs Claimed Under EPA Grant XP97582801, July 21, 2008 – Report Cost: \$134,457*)



Final clarifiers and influent baffles that increase the capacity of the Passaic Valley Sewerage Commissioners plant in Newark, New Jersey (EPA OIG photo).

- The **Passaic Valley (New Jersey) Sewerage Commissioners** claimed \$2,385,634 for pre-award costs that were incurred prior to the grant award and thus were unallowable under the grant administrative conditions and OMB Circular A-87. We recommended that EPA Region 2 recover the \$1,312,099 federal share of the unallowable pre-award costs. (*Report No. 08-2-0226, Passaic Valley Sewerage Commissioners – Unallowable Costs Claimed Under EPA Grant XP98237601, August 6, 2008 – Report Cost: \$69,623*)

We plan to continue auditing Special Appropriation Act Project grants and will include Region 6 grants in FY 2009.

## Labor and Subcontract Cost Verification Reviews Conducted

During this semiannual reporting period, we conducted labor and subcontract cost verification reviews of small- and medium-sized contractors awarded cost reimbursable EPA contracts, to ensure that no overbillings for labor occurred.

EPA accomplishes a large part of its mission through contracts. In FY 2007, EPA obligated over \$1.2 billion to contracts. Past audits, such as our audit of Hurricane Katrina expenditures, have shown that oversight of EPA billings varies from region to region, office to office, and even contract to contract. Lack of consistent oversight presents potential risks regarding the costs being billed by contractors.

Details on several of our reviews conducted this semiannual reporting period follow.

- **Superfund Technical Assistance and Response Team Contractor:** Based on Agency concerns related to questionable labor staffing and charging practices of one of its Superfund Technical Assistance and Response Team contractors, we conducted a labor and subcontract cost verification review. We found that:
  - ✓ The contractor improperly billed for labor costs of employees who did not meet the minimum contract requirements.
  - ✓ No subcontractor met the minimum contract requirements for education and training.
  - ✓ The contractor billed for employees who were not approved at the time the labor costs were incurred.
  - ✓ The contractor improperly billed for employees who did not complete required Basic Incident Command System Level 200 training.

Although our review only covered 1 year of the 5-year contract, we found the Agency was billed \$440,000 in ineligible labor and subcontract costs.

- **Small-business Set-aside Contract:** For a 2005 EPA small-business set-aside contract, we found that labor charges billed under the contract were in accordance with federal laws, regulations, and the terms and conditions of the contract. However, we found that the prime contractor's and subcontractor's relationship under the contract may have violated the Small Business Administration's affiliation criteria. As a result, the contract may have been awarded to a business concern that did not meet the size standard set for the procurement. We recommended the Agency file a size protest with the Small Business Administration.
- **Legal Services Contract:** We reviewed 2007 labor costs associated with an EPA legal services contract that had a history of suspended labor costs. We found that labor and subcontract charges were adequately supported, and company policies and procedures for charging labor costs were consistently followed. However, we found that one employee inappropriately charged an incorrect labor category, resulting in an overpayment exceeding \$2,000. The contractor issued EPA a credit for the overpaid funds.

## Financial Management

*Improving the Agency's financial management.*

### **Pesticide Funds' 2007 Financial Statements Earn Unqualified Opinions**

We rendered unqualified opinions on the FY 2007 financial statements for two funds used for managing pesticide fees.

The Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA fund) is used to deposit fees collected to expedite pesticide reregistration. The Pesticide Registration Fund (known as the PRIA fund) was created in March 2004 to expedite new registrations for certain pesticides in exchange for registration fees.

In addition to providing a clean opinion for both funds, we did not identify any material internal control weaknesses. However, we noted one significant deficiency in internal controls for the FIFRA fund. The Office of Pesticide Programs was unable to provide reliable information on accomplishments for reregistration and amendment actions under FIFRA Performance Measure Two because it did not have effective controls to ensure data accuracy. EPA is required to annually report on its pesticide performance measures and goals.

We recommended that EPA review the entire universe of reregistration and amendment actions claimed in FY 2007. Further, we recommended strengthening internal controls over entering, reviewing, and correcting information in the Office of Pesticide Programs Information Network to reduce the risk of data entry errors. We also recommended that EPA disclose in the Federal Register Notice that the FY 2007 accomplishments are inaccurate if they have not been corrected. Officials agreed with our recommendations and began corrective actions.

We did not identify any noncompliances that would result in a material misstatement to the audited financial statements.

*(Report No. 08-1-0194, Fiscal Year 2007 and 2006 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund, July 8, 2008 – Report Cost: \$225,239; and Report No. 08-1-0149, Fiscal Year 2007 and 2006 Financial Statements for the Pesticide Registration Fund, May 5, 2008 – Report Cost: \$163,278)*

### **Corrective Actions Not Complete for Undistributed Superfund Site Costs**

EPA initiated some corrective actions in response to our prior report on undistributed Superfund site costs, but did not complete them. Also, EPA did not maintain accurate information in the Management Audit Tracking System.

Our July 2006 report noted that EPA did not timely redistribute Superfund payments from a general site identifier to specific sites. When Superfund costs are not redistributed appropriately from a general site identifier to a specific site identifier, these costs may not

be considered in settlement negotiations and oversight billings, and thus may not be recovered from responsible parties for other uses.

Management control weaknesses contributed to a breakdown in the audit follow-up process. EPA did not document formal work assignments for audit follow-up and maintain accountability. EPA did not consistently monitor audit follow-up activities, communicate follow-up status among program offices and obtain follow-up agreements, and document work completion. Because EPA did not complete the corrective actions, its financial management and environmental protection efforts could be impacted.

We recommended that EPA make formal work assignments, document the assignments, hold assignees accountable, and monitor audit follow-up activity. Also, EPA should redistribute \$1.8 million in additional interagency agreement costs recorded after May 12, 2006, and redistribute \$2.8 million of cooperative agreement costs to the correct general and site-specific identifiers. EPA agreed with all our recommendations.

*(Report No. 08-P-0236, Follow-up on Audit of Undistributed Site Costs Finds Corrective Actions Not Complete, August 25, 2008 – Report Cost: \$107,088)*

## Information Resources Management

*Helping the Agency maintain its  
systems and data.*

### **EPASS Would Benefit from Improved Project Management**

EPA has processes to adequately justify costs of projects identified in its information technology investments portfolio. However, the lack of key project management practices prevents it from achieving many projected milestone and budget estimates.

In particular, EPA did not require the EPA Personnel Access and Security System (EPASS) contractor to follow Agency procedures for system development. EPASS did not have a Project Manager authorized to oversee the contractor's work. EPA also paid for invoices that contained contractor labor overcharges.

Had EPA implemented processes to mitigate many of the identified system development weaknesses, it would have been better able to anticipate and possibly avoid most of the additional \$983,216 in EPASS costs. Further, had EPA implemented formal review procedures for contractor invoices, it would have prevented paying an estimated \$75,276 in over-billed contractor labor charges.

We recommended that EPA develop and maintain an EPASS System Management Plan that includes the required Change Management and required information security documents, appoint a certified EPASS Project Manager with authority to oversee contractor work, and ensure EPA collects overpaid amounts from the contractor. The Agency indicated that it has taken actions to address many of our recommendations, but we believe the actions taken do not adequately address our concerns.

*(Report No. 08-P-0271, EPA Personnel Access and Security System Would Benefit from Improved Project Management to Control Costs and the Timeliness of Deliverables, September 22, 2008 – Report Cost: \$391,452)*

### **Procedures Needed for Smartcard Program**

Although EPA developed detailed procedures to guide the EPASS staff's issuance of new Smartcard identification (ID) badges, an employee error in using the new ID card system resulted in an EPA employee having ID documents and other identifying information incorrectly associated with another EPA employee.

An EPASS employee incorrectly accessed the wrong employee's computer record, scanned the ID documents for the employee requesting the Smartcard, then associated the scanned documents with the incorrectly accessed computer record. Although we did not discover more than one incident, we found that EPA lacks procedures to ensure that employees take steps to correct similar incidents when they occur, and also lacks procedures for handling and disposing of defective Smartcard badges. Authenticating an individual's identity is critical for controlling access to EPA resources.

We recommended that EPA update existing ID card issuing procedures, create incident-handling procedures for when errors occur, and implement procedures for proper handling and disposing of defective badges. The Agency agreed to implement our recommendations.

*(Report No. 08-P-0267, Identification Proofing, Incident Handling, and Badge Disposal Procedures Needed for EPA's Smartcard Program, September 16, 2008 – Report Cost: \$120,287)*

## **Managing Internet Protocol Addresses Need Improvement**

Processes used to assign and track Internet Protocol addresses within EPA Headquarters in Washington, DC, need strengthening to enforce accountability. This was noted during the 2008 Federal Information Security Management Act (FISMA) audit.

On behalf of the OIG, a contractor conducted the annual FISMA audit of EPA. Vulnerability testing of the EPA Headquarters network identified 391 Internet Protocol addresses with high-risk and/or medium-risk vulnerabilities. However, EPA's Enterprise Desktop Solutions Division could not identify the offices responsible for 273 of the addresses. EPA needs a process to track the assignment of Internet Protocol addresses and to identify all active and assigned addresses. Various recommendations to address these issues were made to EPA in an early warning report. *(Report No. 08-P-0273, Management of EPA Headquarters Internet Protocol Addresses Needs Improvement, September 23, 2008 – Report cost part of overall report)*

Subsequently, we provided the Agency with the FISMA Reporting Template, as prescribed by OMB. *(Report No. 08-P-0280, Fiscal Year 2008 Federal Information Security Management Act Report: Status of EPA's Computer Security Program, September 26, 2008 – Report Cost, including contract cost and OIG contract management oversight: \$388,135)*

## Investigations

*Investigating laboratory fraud, financial fraud,  
and computer crimes.*

### Investigative Actions

#### **Company President Found Guilty of Defrauding Investors and U.S. Government**

On May 28, 2008, in U.S. District Court for the District of Colorado, a Federal jury found William C. Orr guilty of mail fraud, wire fraud, false statements, and failure to file tax return charges. These charges were related to defrauding investors and the U.S. Government concerning Orr's proposed alternative fuel additive. Orr, of Parker, Colorado, is the founder, President, and a member of the Board of Directors for Octane International, Ltd. Sentencing is pending in this matter.

Through Octane, Orr was raising money for and purportedly developing an alternative fuel additive called "vapor phase combustion (VPC)." Orr solicited money from investors, making a variety of claims regarding the proven efficacy of VPC. As part of his scheme, Orr also prepared and sent periodic newsletters to past and potential investors in which he falsely represented the results of scientific testing regarding VPC, and falsely represented that major oil companies were interested in making substantial investments in VPC. From January 1998 through December 2004, more than 43 people invested approximately \$559,200 in Octane, based on the fraudulent pretenses, representations, and promises made by Orr. Orr used this money to pay for personal expenses and some business expenses.

Orr also successfully lobbied members of Congress and obtained a \$3.6-million earmark grant for further testing of VPC. Orr created the National Alternative Fuels Foundation as a non-profit entity to obtain and use the money. Orr submitted a grant proposal and other documents to EPA, which he knew contained material falsities, including the false scientific test results for VPC. The National Alternative Fuels Foundation actually received approximately \$2 million of the earmarked grant money from EPA.

Subsequent to Orr's conviction, Scott Shires, the National Alternative Fuels Foundation's Treasurer, agreed to plead guilty to three counts of knowingly failing to file tax returns for Octane for 1999, 2000, and 2001. Shires was involved with Octane, acting at various times as its registered agent, bookkeeper, Chief of Staff, Corporate Secretary, and Treasurer. On June 23, 2008, Shires was sentenced to 12 months probation, a \$3,450 fine, and a \$75 special assessment.

*This case is being conducted with the Internal Revenue Service Criminal Investigation Division and the U.S. Postal Inspection Service. (Case Cost: \$673,426)*

## Pleas Entered in Bid Rigging Case

On July 23, 2008, in U.S. District Court for the District of New Jersey, JMJ Environmental, Inc., of Laurel Springs, New Jersey, as well as its owner and a former employee of a prime contractor, were charged and pled guilty in a bid-rigging scheme in connection with subcontracts for wastewater treatment supplies and services at two Superfund sites in New Jersey. On July 31, 2008, Bennett Environmental, Inc. (BEI), a Canadian company, was also charged and pled guilty for its role in the scheme. Sentences are pending.

JMJ and John Drimak, Jr., the firm's owner, pled guilty to rigging bids at the Federal Creosote Superfund site in Manville, New Jersey, from approximately October 2002 to February 2006. Drimak also pled guilty to one count of conspiracy to defraud EPA at the Federal Creosote site and to defraud Tierra Solutions, Inc., at the Diamond Alkali Superfund site in Newark, New Jersey. As part of the conspiracy, Drimak participated in a false invoicing and kickback scheme from January 2002 until April 2007. He also pled guilty to filing false income tax returns for 2002 through 2005.

Norman Stoerr, a former employee of a prime contractor, pled guilty to rigging bids at the Federal Creosote site from approximately October 2002 to October 2003. In addition, Stoerr pled guilty to one count of conspiracy to defraud EPA at the Federal Creosote site and to defraud Tierra Solutions at the Diamond Alkali Superfund site by participating in a false invoicing and kickback scheme from the fall 2000 until spring 2004. Stoerr also pled guilty to one count of aiding Drimak in filing a false income tax return.

Drimak, Stoerr, and other co-conspirators thwarted the competitive bidding process and defrauded EPA. Drimak provided more than \$26,000 in kickbacks to Stoerr and more than \$385,000 to Stoerr's former supervisor in exchange for their assistance in allocating certain subcontracts to JMJ. The kickbacks were in the form of checks, cash, cruises, home renovations, boat trailers, and airline tickets. In addition, Stoerr and a former supervisor inflated invoices and accepted kickbacks from three other subcontractors at the Superfund sites.

BEI pled guilty to conspiracy to defraud EPA at the Federal Creosote site by inflating the prices it charged to a prime contractor and paying kickbacks to employees of that contractor from approximately May 2002 until spring 2004. BEI was given confidential bid information that it used to inflate invoices to cover almost \$1.3 million in kickbacks to employees of the prime contractor in exchange for their assistance in steering subcontracts to BEI. The kickbacks were in the form of money wire transfers, cruises for senior officials, various entertainment tickets, and home entertainment electronics. As part of the fraudulent scheme, BEI and its co-conspirators also included amounts they kept for themselves in the inflated invoices.

*This case is being conducted with the Internal Revenue Service Criminal Investigation Division. (Case Cost: \$216,979)*

## **Two Given Prison Terms in \$1.4 Million Bribery and Kickback Scheme**

On August 14, 2008, two U.S. Virgin Island government officials were sentenced to prison in U.S. District Court for the District of the Virgin Islands for their roles in a \$1.4 million bribery and kickback scheme. Both were found guilty on February 27, 2008, following a 2-week jury trial.

Dean C. Plaskett, the former commissioner of the U.S. Virgin Islands Department of Planning and Natural Resources, was sentenced to 9 years in prison to be followed by 3 years of probation. He was also ordered to pay a \$300 special assessment and will be held liable, along with several other defendants, for a monetary judgment in the amount of \$1,086,237.

Marc A. Biggs, the former commissioner of the U.S. Virgin Islands Department of Property and Procurement, was sentenced to 7 years in prison to be followed by 3 years of probation. He was also ordered to pay a \$100 special assessment and will be held liable, along with several other defendants, for a monetary judgment in the amount of \$960,482.

Plaskett and Biggs were found guilty of demanding and accepting bribes and kickbacks in connection with the award of a \$650,000 government contract to a shell company. Plaskett was also convicted of obstruction of justice stemming from his efforts to conceal the scheme from federal and local investigators, as well as a grand jury.

The bribery and kickback scheme began in early 2000 and continued through early 2004 and involved at least three government agencies and the award of more than \$1.4 million in government contracts for environmental and other government work. Despite little or no work having been performed on any of those contracts, Plaskett, Biggs, and other government officials authorized more than \$1 million in progress payments. The parties would then split the illicit contract proceeds. When the scheme became part of a joint multi-agency investigation, Plaskett led a second illicit scheme designed to obstruct justice by attempting to have fictitious documents created and backdated to falsely document work never done by the same shell company on a different government contract.

To date, four other individuals have pled guilty to felony charges as a result of this investigation.

*This investigation is being conducted with the Federal Bureau of Investigation, the Internal Revenue Service Criminal Investigation Division, the U.S. Postal Inspection Service, and the Virgin Islands Office of Inspector General. (Case Cost: \$234,736)*

## **Former EPA Intern Pleads Guilty to Submitting False Timesheets**

On September 4, 2008, Stephanie Jackson, of Arlington, Texas, pled guilty in U.S. District Court for the District of Massachusetts to 10 counts of making false statements. Jackson was previously charged in June 2008.

Jackson was employed with The Environmental Careers Organization, Inc. (ECO). ECO placed Jackson in an internship position with EPA in March 2006; however, EPA

contacted ECO within 2 weeks and requested that Jackson be replaced with another intern. After she left her internship at EPA, Jackson submitted forged timesheets to ECO, which subsequently continued to pay Jackson a salary for approximately 1 year after her internship had been terminated. Her salary was paid from funds provided to ECO through an EPA grant.

Jackson is scheduled to be sentenced on December 3, 2008.

*(Case Cost: \$26,124)*

### **Suspect Sentenced in Identity Fraud Scheme**

On June 9, 2008, Stephen Francis, of Lanham, Maryland, was convicted of theft and sentenced in the District Court of Maryland for Montgomery County, Maryland. Francis was sentenced to 18 months in jail, which the judge suspended to an 18-month supervised probation. Francis was also ordered to pay a \$300 fine and a \$58 special assessment.

Francis used the stolen identity of an EPA employee to establish cellular telephone service for five cell phone accounts. During the investigation, the original cellular service agreement was obtained and forwarded to the U.S. Secret Service Forensics Laboratory for latent fingerprint analysis. The fingerprints identified on the document were used to identify Francis as the suspect in this case.

*(Case Cost: \$644,155)*

## **Audit Report**

### **Innovative Techniques Can be Used for State Monitoring of Revolving Funds**

*In general, the States we reviewed complied with subrecipient monitoring requirements for State revolving loan funds. Further, we noted innovative techniques as part of our special review.*

EPA had awarded about \$1.5 billion in State Revolving Funds in 2008, and subrecipient monitoring of projects awarded funds is needed to ensure projects meet performance goals and borrowers spend federal funds properly. We noted innovative techniques used by two States that take advantage of technology, such as e-mail and the Internet, to reduce the number of onsite inspections while still tracking construction activity. Two other States analyze subrecipient audit reports not only to track financial condition but also to make trend and ratio analyses to project on a subrecipient's ability to repay a loan.

We did not make any recommendations, although we noted EPA's Annual Performance Evaluation and annual review procedures could be more detailed regarding subrecipient monitoring.

*(Report No. 08-P-0290, Innovative Techniques for State Monitoring of Revolving Funds Noted, September 29, 2008 – Report Cost: \$95,076).*

## Testimony

*Providing testimony before congressional committees.*

### **Assistant Inspector General Testifies on EPA's Role in Restoring the Chesapeake Bay**

On July 30, 2008, Wade Najjum, Assistant Inspector General for Program Evaluation, testified before the House Transportation and Infrastructure Subcommittee on Water Resources and Environment during a hearing on protecting and restoring the Chesapeake Bay.

In response to a request from a U.S. Senator from Maryland, the OIG issued four major reports on the Chesapeake Bay Program's efforts in reducing excess nutrients and sediments into the Bay. The OIG focused on the key sources of nutrients and sediments: agriculture, air deposition, developing land, and wastewater treatment facilities.

"In each area we found that the Bay partners had accomplished some noteworthy achievements, but achieving the Chesapeake Bay water quality goals is in serious jeopardy," Mr. Najjum testified. Moreover, he said, "the Bay remains degraded and at the current rate of progress, the Bay will remain impaired for decades."

In the individual reports, the OIG concluded that significant challenges the Bay partners faced in meeting their clean-up goals were: increasing implementation of agricultural conservation practices, managing land development, seeking greater reductions in air emissions, and upgrading wastewater treatment facilities. Surmounting these challenges requires action by States, local governments, watershed organizations, and federal agencies. "In this case," Mr. Najjum said, "we believe EPA lacks authorities, resources, and tools needed to address the challenges posed by agricultural runoff, new development, air pollution, and wastewater treatment upgrades."

EPA's principal role is to facilitate and motivate other key Bay stakeholders to take the necessary steps, many of which will be expensive and difficult. "A key task for EPA will be to provide Congress and Bay citizens with a realistic picture of what it will take to clean the Bay, challenges and obstacles, and a realistic timeframe for when the water quality goals will be achieved," said Mr. Najjum.

Meeting the various challenges facing the Bay will require a fundamental reexamination of current approaches and strategies used by EPA and its partners at the federal, State, and local levels. "Given its limited financial resources and regulatory authority, EPA's greatest role will be in facilitating and motivating States and local governments and watershed groups to address the challenges and consider the sacrifices that will be required," said Mr. Najjum.

Since the Chesapeake Bay Program is at the forefront of watershed restoration, finding successful solutions to clean up the Chesapeake Bay is important to other estuaries across the country experiencing similar challenges, concluded Mr. Najjum.

## **Assistant Inspector General Testifies on Investigation of EPA's Clean-up of Libby, Montana, Superfund Site**

On September 25, 2008, Stephen Nesbitt, Assistant Inspector General for Investigations, testified before the Senate Environment and Public Works Committee on the OIG's investigation of EPA clean-up actions at the Libby, Montana, Superfund site.

The OIG initiated an investigation in March 2006 in response to a misconduct allegation raised by a former EPA toxicologist against a contractor working in Libby. "While we determined this allegation did not merit prosecution, witnesses and EPA employees raised other allegations regarding EPA's clean-up actions in Libby that we believed warranted our attention," said Mr. Nesbitt.

One allegation was that EPA proceeded to clean up Zonolite insulation in attics and walls within homes in Libby under an emergency response removal action that was questionable under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), also known as Superfund. "EPA's On-Scene Coordinator believed that this insulation had to be removed from homes in Libby because it could re-contaminate the area if left in attics and walls and somehow became airborne," Mr. Nesbitt testified. However, CERCLA specifically prohibits the use of Superfund money to clean up products unless a public health emergency is declared. In a draft action memorandum from November 2001, the On-Scene Coordinator proposed that a public health emergency be declared and that authorization be granted to remove insulation in 800 Libby homes.

Over the next several months, this draft memorandum was reviewed and revised by numerous officials within both Region 8 and EPA's Office of Solid Waste and Emergency Response. "E-mails show that officials mostly supported a public health declaration until February 2002, when OMB staff raised questions and began to express doubts that such a declaration was necessary," said Mr. Nesbitt. EPA's Office of Prevention, Pesticides, and Toxic Substances voiced concerns as well over the declaration of a public health emergency.

Legal alternatives to declaring a public health emergency were provided by EPA's Office of General Counsel. An EPA attorney opined that if the insulation was viewed as a "non-product" then it would be legal to use CERCLA funds for the clean-up in Libby. In May 2002, a new draft action memorandum was circulated for review within EPA Headquarters that removed all references to a public health emergency declaration and to the commercial name Zonolite.

"Despite Region 8's recommendation, EPA Headquarters determined that Region 8 should proceed to clean up the Zonolite asbestos in Libby homes without declaring a public health emergency," said Mr. Nesbitt. The final action memorandum was signed on May 9, 2002, by the Assistant Administrator for Solid Waste and Emergency Response, at that time the approving official. "It allowed for the clean-up of homes and yards at a cost of \$54 million without declaring a public health emergency," said Mr. Nesbitt.

Another allegation was that EPA made remediation decisions without adequate science because a baseline risk assessment, which is required under the National Contingency Plan, was not done, possibly placing Libby residents at risk. In September 2002, the Remedial Project Manager for Libby requested funds to conduct both the remediation and the required risk assessment. Specifically, the Remedial Project Manager requested a total of \$21 million – \$17 million of which would go to clean-up activities and \$4 million for a risk assessment. However, EPA Headquarters proposed only \$17 million for clean-up activities and no funding for a risk assessment. At that funding level, the Remedial Project Manager was forced to stop all additional risk assessment work, Mr. Nesbitt testified.

The OIG briefed attorneys from the Department of Justice's Public Integrity Section on the investigation. In a letter dated June 6, 2008, the Chief of the Department of Justice's Public Integrity Section notified the OIG "of its determination that the initiation of criminal proceedings in this matter was not warranted, and therefore declined prosecution," Mr. Nesbitt concluded.

After the hearing, a joint report was issued by the Senate Committee on Environment and Public Works majority staff and Sen. Max Baucus' staff entitled "EPA's Failure to Declare a Public Health Emergency in Libby, Montana," that detailed their own findings and conclusions regarding EPA's decision not to declare a public health emergency in Libby.

## Chemical Safety and Hazard Investigation Board

*The U.S. Chemical Safety and Hazard Investigation Board (CSB) was created by the Clean Air Act Amendments. The Board's mission is to investigate accidental chemical releases at facilities, to report to the public on the root causes, and to recommend measures to prevent future occurrences.*

*In FY 2004, Congress designated the EPA OIG to serve as the Inspector General for the CSB. As a result, the EPA OIG has the responsibility to audit, evaluate, inspect, and investigate CSB's programs, and to review proposed laws and regulations to determine their potential impact on CSB's programs and operations.*

### **CSB Improved Security of Information System Resources**

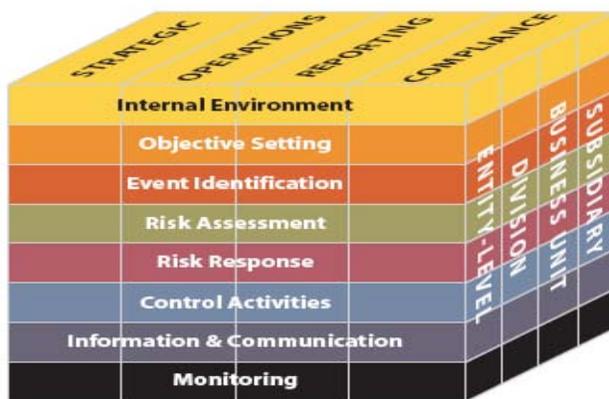
During both FYs 2007 and 2008, CSB continued to make progress in improving the security of its information system resources, according to reviews conducted by a contracted consulting firm.

- **2007:** CSB assigned a risk categorization to CSB's General Support System, developed policies mandating using and updating security configuration checklists, and conducted contingency plan testing and an e-authentication risk assessment. CSB also aligned the organization's security program with required Personally Identifiable Information changes. CSB completed all but one of the planned actions in response to weaknesses identified during FY 2006. (*Report No. 08-P-0134, Evaluation of U.S. Chemical Safety and Hazard Investigation Board's Compliance with the Federal Information Security Management Act and Efforts to Protect Sensitive Agency Information (Fiscal Year 2007), April 21, 2008 – Cost of OIG contract oversight: \$3,235; actual contract funded by CSB*)
- **2008:** CSB expanded security training to include specialized, role-based training; implemented incident response training and testing; and issued a Breach Policy. CSB also benchmarked and utilized industry best practices and templates in updating the CSB Certification and Accreditation documentation. The contractor found areas for improvement. CSB needed to insert the approved security "banner" within all CSB database applications. Further, CSB needed to continue updating the CSB Configuration Management policy and associated procedures for non-standard security configurations, and to continue to update other security documentation. (*Report No. 08-P-0295, Evaluation of U.S. Chemical Safety and Hazard Investigation Board's Compliance with the Federal Information Security Management Act and Efforts to Protect Sensitive Agency Information (Fiscal Year 2008), September 29, 2008 – Cost of OIG contract oversight: \$6,224; actual contract funded by CSB*)

## Other Activities

### OIG FY 2009 Annual Plan Designed to Address Agency Risks

During this 6-month period, the OIG executed a planning process based upon the Enterprise Risk Management Integrated Framework Model developed by the Committee of Sponsoring Organizations of the Treadway Commission (see diagram). This resulted in the development of an FY 2009 strategy and work plan that addresses EPA's most significant environmental and management risks, priorities, and challenges. The Plan is available at <http://www.epa.gov/oig/planning.htm>.



Source: Committee of Sponsoring Organizations of the Treadway Commission

The planning process included developing and updating a comprehensive compendium of risks, challenges, and opportunities for each Agency management and media area, as well as regional cross-goal and management issues. Data was collected, categorized, and summarized to reflect a broad perspective from multiple sources, including EPA's managers, Agency planning research and performance reporting results, previous OIG work, and a risk assessment by the Government Accountability Office.

We used the compendiums of risks and challenges, largely reported by the Agency itself, to formulate customer-driven strategic themes and develop and select assignments.

The plan lists assignments in progress from FY 2008 for completion in FY 2009, along with required assignments and those selected to start during the first half of FY 2009, by product line. This plan, which also provides a summary update on the OIG Strategic Plan, is designed to adjust for new priorities and conditions while pursuing a program of work that leverages the greatest return on investment in terms of Agency improvements, performance, and risk reduction.

### Legislation and Regulations Reviewed

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the program and operation of EPA and to make recommendations concerning their impact. The primary basis for our comments are the audit, evaluation, investigation, and legislative experiences of the Office of Inspector General, as well as our participation on the President's Council on Integrity and Efficiency (PCIE). During the reporting period, we reviewed 31 proposed changes to legislation, regulations, policy, and procedures that could affect EPA and provided comments on 18 of those reviewed. We also reviewed drafts of OMB circulars, program operations manual, directives, and reorganizations. Details on several items follow.

**S. 3077, “Strengthening Transparency and Accountability in Federal Spending Act of 2008.”** This bill would expand the information available on [www.USASpending.gov](http://www.USASpending.gov), a public database containing information on federal grants, contracts, and other financial assistance, to ensure greater openness and accuracy. The OIG provided comments to the PCIE Legislation Committee that noted the potentially burdensome audit requirement that each agency Inspector General review a statistically representative sample of agency federal awards every 6 months to verify their accuracy. Other Inspectors General expressed similar concerns, which were forwarded by the PCIE Legislation Committee to the Senate Homeland Security and Governmental Affairs Committee on behalf of the Inspector General community.

**Proposed EPA Order, *Intelligence Operations*.** EPA’s Office of Homeland Security proposed a new EPA Order describing the Intelligence Operations function at EPA. Through this new EPA Order, the Office of Homeland Security established a formal framework for its role in leading EPA on all matters related to national security and intelligence. We commented that the Office of Homeland Security omitted OIG’s statutory law enforcement duties, responsibilities, and authorities as they relate to intelligence operations. Additionally, we provided specific wording for the Office of Homeland Security to use in explicitly stating the OIG has oversight of EPA intelligence operations and for investigating, or referring for investigation, reports of questionable intelligence activities.

**Proposed Revision to EPA Order 1000.24, *Management's Responsibility for Internal Controls*.** EPA’s Office of the Chief Financial Officer proposed a revision to EPA Order 1000.24, *Management Responsibility of Internal Controls*. The Order serves as EPA’s strategy to assess the effectiveness of internal controls; identify, correct, and report vulnerabilities; and ensure compliance with applicable federal rules and regulations. We made a number of comments to strengthen and clarify the proposed revision, including:

- Overall, Section 8 did not provide enough detail and guidance on internal controls. We commented that this section should be expanded and reorganized to include a model and discussion about the management control process; a discussion about internal control objectives; and characteristics and logical linkage between Strategic, Structural, Operational, and Financial Controls.
- We suggested adding information on the responsibilities of lead regions in assessing the potential for cross-regional problems. For example, if it is an issue in one region, other regions should be canvassed to see if the problem is systemic. The wording is included in Office of the Chief Financial Officer annual guidance but was not mentioned in the Order.
- The Inspector General is included as a member of the Senior Assessment Team. We commented that the Order must note that the Inspector General’s role is limited to basically a consulting capacity. The Inspector General does not approve the Agency’s approach for internal controls over financial reporting reviews; does not determine the design, scope, methodology, and cost of the assessment; and does not designate a Management Integrity Advisor and, if applicable, a Coordinator for overseeing internal control reviews over financial reporting in organizations.

**Proposed Resource Management Directives System Chapter 2540-11, *Property, Plant, & Equipment (PP&E) Policy Standard and Technical Interpretation*.** EPA's Office of the Chief Financial Officer proposed the addition of Chapter 2540-11, *Property, Plant, & Equipment Policy Standard and Technical Interpretation*, to the Resource Management Directives System. The chapter summarizes EPA's accounting policy for capitalizing PP&E and how all PP&E transactions will be processed, reconciled, and resolved in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) set forth by the Federal Accounting Standards and Advisory Board. We provided a number of comments, including:

- *EPA's Capitalization Summary* needs to be clarified on the capitalization threshold for "Plumbing, Heating, and Sanitation." It is not clear how plumbing and water and sewage are considered EPA property unless they are improvements, which are noted in another category.
- *EPA's Capitalization Summary* does not address the threshold for capitalized software in production. It only addresses information technology investments. It is not clear why there are thresholds for software investments. Normally, software in development is expensed and when it is placed in production it is capitalized within specified limits.
- The references to SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, should be removed from Sections II.A.2 and V.A.1. SFFAS No. 1 addresses six assets: Cash, Fund Balance with Treasury, Accounts Receivable, Interest Receivable, Advances and Prepayments, and Investments in Treasury Securities; and three liabilities: Accounts Payable, Interest Payable, and Other Current Liabilities. SFFAS No. 1 does not address property, plant, and equipment.

## **OIG Audit Follow-up Strategy Demonstrating Results**

The OIG continued implementing a new audit follow-up strategy for strengthening both the OIG's and Agency's attention to the process for closing-out (reaching agreement on actions to be taken) and completing agreed-to actions on OIG recommendations.

According to the Institute of Internal Auditors, follow-up is a process by which "internal auditors determine the adequacy, effectiveness, and timeliness of actions taken by management on all reported audit findings." OMB Circular A-50 notes that audit follow-up is a "shared responsibility" between the audited and auditor entities.

To comply with Inspector General Act reporting requirements and to help EPA managers gain greater awareness of outstanding commitments for action, we have developed a "Compendium of Unimplemented Recommendations." OIG identification of unimplemented recommendations has already yielded significant results. During the first half of FY 2008, based upon a congressional request and a subsequent report to Agency management, the OIG identified 65 unimplemented recommendations. Of those 65 identified requiring action, 32 have since been implemented. Since that initial report, 21 additional unimplemented recommendations have been reported in the compendium, for a total of 86 unimplemented recommendations identified during the fiscal year with several others identified and pending further review.

In addition to the OIG identification of unimplemented recommendations, performed independently but in coordination with the Office of the Chief Financial Officer, EPA's designated Agency Follow-up Official, the OIG has also trained its own staff on improved close-out processes, revised its internal operational and reporting procedures, and redesigned its audit management data base to address individual recommendations to specific Agency action officials for greater awareness of commitments and accountability for action.

The OIG has recommended that a review of follow-up commitments be required as part of the Agency's Federal Managers' Financial Integrity Act (FMFIA) assessment process. The OIG is also planning to work with the Office of the Chief Financial Officer to revise the Agency directive on audit follow-up, and train senior managers on their responsibilities for audit management. Based on this early implementation phase of the OIG's follow-up strategy, significant progress has been made in the attention given to resolving OIG recommendations. The OIG hopes this will be further enhanced by the "Compendium of Unimplemented Recommendations."

### **OIG Performs Internal Funds Control Review**

The OIG performed a comprehensive internal review of its funds control program processes, to ensure that: (1) funds are used only for authorized purposes, (2) funds are economically and efficiently used, and (3) obligations and expenditures do not exceed the amounts authorized and available. Our review of FY 2007 travel and non-purchase card requisitions greater than \$500 indicated that 100 percent of the sampled transactions are properly recorded and accounted.

The review was performed using the revised OMB Circular A-123 checklist, which we have advocated for use within the Agency through our review comments on Agency Policy Directives. Although no problems were found in the sampled OIG transactions, the review recommended that the OIG's *Financial Management Policy* be updated to account for the current management and oversight structure, processes, and information regarding approvals; the application of the purchase card program; and electronic processing of training requests and non-purchase card procurements.

The OIG also reviewed the control over billing of Working Capital Fund services and hand-held electronic devices. As a result, the OIG implemented additional back-up controls to save potentially tens of thousands of dollars by identifying when the Agency Working Capital Fund continues billing for services after notification that staff members have left the OIG.

## Statistical Data

### Profile of Activities and Results

<b>Audit, Inspection, and Evaluation Operations</b>		
<b>Office of Inspector General Reviews</b>		
	April 1, 2008, to September 30, 2008 (\$ in millions)	FY 2008
<b>Questioned Costs *</b>		
▪ Total	\$6.0	\$8.4
▪ Federal	\$6.2	\$8.3
<b>Recommended Efficiencies *</b>		
▪ Federal	\$53.4	\$76.2
<b>Costs Disallowed to be Recovered</b>		
▪ Federal	\$4.0	\$10.2
<b>Costs Disallowed as Cost Efficiency</b>		
▪ Federal	\$4.7	\$21.3
<b>Reports Issued - Office of Inspector General Reviews</b>	39	57
<b>Reports Resolved</b> (Agreement by Agency officials to take satisfactory corrective actions) **	93	103

<b>Audit, Inspection, and Evaluation Operations</b>		
<b>Other Reviews</b>		
<b>(Reviews Performed by Another Federal Agency or Single Audit Act Auditors)</b>		
	April 1, 2008, to September 30, 2008 (\$ in millions)	FY 2008
<b>Questioned Costs *</b>		
▪ Total	\$36.0	\$105.6
▪ Federal	\$4.0	\$5.6
<b>Recommended Efficiencies *</b>		
▪ Federal	\$2.2	\$2.2
<b>Costs Disallowed to be Recovered</b>		
▪ Federal	\$0.5	\$6.0
<b>Costs Disallowed as Cost Efficiency</b>		
▪ Federal	\$0	\$0
<b>Reports Issued – Other Reviews</b>		
▪ EPA Reviews Performed by Another Federal Agency	107	163
▪ Single Audit Act Reviews	<u>40</u>	<u>84</u>
Total	147	247
<b>Agency Recoveries</b>		
Recoveries from Audit, Inspection, and Evaluation Resolutions of Current and Prior Periods (cash collections or offsets to future payments) ***	\$0.2	\$8.9

<b>Investigative Operations</b>		
	April 1, 2008, to September 30, 2008 (\$ in millions)	FY 2008
Fines and Recoveries (including civil) ****	\$0.284	\$3.733
Cost Savings	\$0	\$0
Cases Open During Period	23	49
Cases Closed During Period	25	65
Indictments/Informations of Persons or Firms	8	20
Convictions of Persons or Firms	4	18
Civil Judgments/Settlements/Filings	0	3

\* Questioned Costs and Recommended Efficiencies are subject to change pending further review in the audit, inspection, and evaluation resolution process. Total Questioned Costs include contracts of other federal agencies.

\*\* Reports Resolved are subject to change pending further review.

\*\*\* Information on Recoveries from Audit, Inspection, and Evaluation Resolutions is provided by EPA's Office of Financial Management and is unaudited.

\*\*\*\* Total includes actions resulting from joint investigations.

## Audit, Inspection, and Evaluation Report Resolution

### Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending September 30, 2008

Report Category	No. of Reports	Report Issuance (\$ in thousands)		Report Resolution Costs Sustained (\$ in thousands)	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by April 1, 2008*	116	\$44,297	\$16,038	\$4,255	\$5
B. Which were issued during the reporting period	186	\$10,038	\$55,693	\$224	\$4,673
C. Which were issued during the reporting period that required no resolution	83	\$0	\$0	\$0	\$0
Subtotals (A + B - C)	219	\$54,335	\$71,731	\$4,479	\$4,678
D. For which a management decision was made during the reporting period	93	\$35,508	\$18,449	\$4,479	\$4,678
E. For which no management decision was made by September 30, 2008	126	\$18,827	\$53,282	\$0	\$0
F. Reports for which no management decision was made within 6 months of issuance	48	\$13,367	\$1,500	\$0	\$0

\* Any difference in number of reports and amounts of questioned costs or recommended efficiencies between this report and our previous semiannual report results from corrections made to data in our audit tracking system.

### Status of Management Decisions on Inspector General Reports

This section presents statistical information as required by the Inspector General Act of 1978, as amended, on the status of EPA management decisions on reports issued by the OIG involving monetary recommendations. As presented, information in Tables 1 and 2 cannot be used to assess results of reviews performed or controlled by this office. Many of the reports were prepared by other federal auditors or independent public accountants. EPA OIG staff do not manage or control such assignments. Auditees frequently provide additional documentation to support the allowability of such costs subsequent to report issuance.

**Table 1 - Inspector General-Issued Reports with Questioned Costs for Semiannual Period Ending September 30, 2008 (dollars in thousands)**

Report Category	No. of Reports	Questioned Costs *	Unsupported Costs
A. For which no management decision was made by April 1, 2008 **	49	\$44,297	\$29,475
B. New reports issued during period	35	\$10,038	\$5,724
Subtotals (A + B)	84	\$54,335	\$35,199
C. For which a management decision was made during the reporting period	38	\$35,508	\$23,695
(i) Dollar value of disallowed costs	24	\$4,479	\$1,620
(ii) Dollar value of costs not disallowed	14	\$31,029	\$22,075
D. For which no management decision was made by September 30, 2008	46	\$18,827	\$11,504
Reports for which no management decision was made within 6 months of issuance	18	\$16,367	\$8,913

\* Questioned costs include the unsupported costs.

\*\* Any difference in number of reports and amounts of questioned costs between this report and our previous semiannual report results from corrections made to data in our audit, inspection, and evaluation tracking system.

**Table 2 - Inspector General-Issued Reports with Recommendations that Funds Be Put to Better Use for Semiannual Period Ending September 30, 2008 (dollars in thousands)**

Report Category	No. of Reports	Dollar Value
A. For which no management decision was made by April 1, 2008 *	4	\$16,038
B. Which were issued during the reporting period	4	\$55,693
Subtotals (A + B)	8	\$71,731
C. For which a management decision was made during the reporting period	3	\$18,449
(i) Dollar value of recommendations from reports that were agreed to by management	2	\$4,678
(ii) Dollar value of recommendations from reports that were not agreed to by management	1	\$13,771
(ii) Dollar value of non-awards or unsuccessful bidders	0	\$0
D. For which no management decision was made by September 30, 2008	5	\$53,282
Reports for which no management decision was made within 6 months of issuance	1	\$1,500

\* Any difference in number of reports and amounts of funds put to better use between this report and our previous semiannual report results from corrections made to data in our audit, inspection, and evaluation tracking system.

**Audits, Inspections, and Evaluations with No Final Action as of September 30, 2008, Which Are Over 365 Days Past the Date of the Accepted Management Decision (including Audits, Inspections, and Evaluations in Appeal)**

Audits, Inspections, and Evaluations	Total	Percentage
Program	34	46%
Assistance Agreements	23	31%
Contract Audits	0	0%
Single Audits	16	22%
Financial Statement Audits	1	1%
<b>Total</b>	<b>74</b>	<b>100.0%</b>

## Hotline Activity

The following table shows EPA OIG Hotline activity regarding complaints of fraud, waste, and abuse in EPA programs and operations that occurred during the past semiannual and annual periods.

	Semiannual Period (April 1, 2008 - September 30, 2008)	Annual Period (October 1, 2007 - September 30, 2008)
<b>Inquiries and Complaints Received During Period</b>	412	838
<b>Issues Handled by EPA OIG</b>	81	191
<b>Inquiries Addressed Without Opening a Complaint</b>	74	182
<b>Complaints Opened</b>	0	2
<b>Complaints Closed</b>	2	8
<b>Complaints Open – Beginning of Period</b>	6	12
<b>Complaints Open – End of Period</b>	4	4
<b>Issues Referred to Others</b>	331	647
<b>EPA Program Offices</b>	75	155
<b>EPA Office of Enforcement &amp; Compliance Assurance</b>	12	29
<b>Other Federal Agencies</b>	36	78
<b>State/Local Agencies</b>	208	385

## Summary of Investigative Results

### Summary of Investigative Activity during Period

Cases open as of April 1, 2008	97
Cases opened during period	23
Cases closed during period	25
Cases pending as of September 30, 2008	95

### Investigations Pending by Type as of September 30, 2008

	Superfund	Management	Split Funded	Total
Contract	7	6	2	15
Assistance Agreement	0	26	2	28
Employee Integrity	1	17	0	18
Program Integrity	2	6	1	9
Computer Crime	0	4	0	4
Laboratory Fraud	1	14	0	15
Other	1	3	2	6
<b>Total</b>	<b>12</b>	<b>76</b>	<b>7</b>	<b>95</b>

### Results of Prosecutive Actions

	EPA OIG Only	Joint *	Total
Criminal Indictments / Informations / Complaints	2	6	8
Convictions	2	2	4
Civil Judgments / Settlements / Filings	0	0	0
Fines and Recoveries (including Civil)	\$358	\$3,925	\$4,283
Prison Time	18 months	192 months	210 months
Prison Time Suspended	18 months	0 months	18 months
Probation	18 months	84 months	102 months
Community Service	0 hours	0 hours	0 months

### Administrative Actions

	EPA OIG Only	Joint *	Total
Suspensions	1	0	1
Debarments	3	1	4
Compliance Agreements	3	1	4
Other Administrative Actions	1	0	1
<b>Total</b>	<b>8</b>	<b>2</b>	<b>10</b>
<b>Administrative Recoveries</b>	<b>\$280,000</b>	<b>\$0</b>	<b>\$280,000</b>

\* With another federal agency.

## Scoreboard of Results

### Scoreboard of OIG FY 2008 Performance Results Compared to FY 2008 Annual Performance Goal Targets

All results reported in FY 2008, from current and prior years' work, are as reported in OIG Performance Measurement and Results System, Inspector General Operations Reporting System, and Inspector General Enterprise Management System.

OIG FY 2008 Government Performance and Results Act Annual Performance Targets Compared to FY 2008 Results Reported	Supporting Measures
<b>Goal: Contribute to Human Health and Environmental Quality Through Improved Business Practices, Accountability, and Integrity of Program Operations</b>	
<b>Environmental Improvements/Actions/Changes Improvements in Business/Systems/Efficiency Risks Reduced or Eliminated</b>  <i>Target: 334; Reported: 463 (139%)</i> ●	1 Legislative/regulatory change/decision 0 Examples of environmental improvement 0 Environmental best practices implemented 0 Management best practices implemented 11 Environmental policy, process, practice, control changes 164 Mgmt. policy, process, practice, control changes 251 Certifications/validations/verifications/corrections 4 Environmental/mgt. risks reduced/eliminated 32 Recommendations reported as implemented previously identified unimplemented by follow-up *
<b>Environmental and Business Recommendations, Challenges, Best Practices, and Risks Identified</b>  <i>Target: 971; Reported: 616 (63%)</i> ●	11 Environmental recommendations (for Agency/stakeholder action) 476 Management recommendations (for Agency/stakeholder action) 11 Critical cong./public mgmt. concerns addressed 2 Best environmental practices identified 0 Best management practices identified 9 Referrals for Agency action 20 New FMFIA/A-123/mgt. challenges/risks identified 1 Environmental risk identified 86 Unimplemented recommendations identified
<b>Return on Investment: Potential Dollar Return as Percentage (150%) of OIG Budget (\$52.3 million)</b>  <i>Target: \$78.5 M; Reported: \$97.3 M (EPA) (185%)</i> ●	<i>(Dollars in Millions)</i> \$13.9 Questioned costs (net EPA) \$79.7 Recommended efficiencies, costs saved (EPA) \$ 3.7 Fines, recoveries, settlements
<b>Criminal, Civil, and Administrative Actions Reducing Risk of Loss/Operational Integrity</b>  <i>Target: 80; Reported: 84 (105%)</i> ●	18 Criminal convictions 21 Indictments/informations/complaints 3 Civil judgments/settlements/filings 42 Administrative actions
<b>Sustained Monetary Recommendations and Savings Achieved from Current and Prior Periods: \$38.2 M</b>  <b>Sustained Environmental and Management Recommendations for Resolution Action: 221</b>  <b>Reports Issued: 304</b>	<i>(Dollars in Millions)</i> \$15.7 Questioned costs sustained \$22.5 Cost efficiencies sustained or realized ** 219 Sustained management recommendations 2 Sustained environmental recommendations 57 OIG-produced reports 247 Reports by other audited entities w/OIG oversight

\* Reported by Agency as implemented of those reported by OIG in Report No. 08-P-0200 as unimplemented.

\*\* Includes \$1.3 million efficiency identified and sustained prior to completion of audit, not in resolution process.

# Appendices

## Appendix 1 - Reports Issued

The Inspector General Act requires a listing, subdivided according to subject matter, of each report issued by the OIG during the reporting period. For each report, where applicable, the Inspector General Act also requires a listing of the dollar value of questioned costs and the dollar value of recommendations that funds be put to better use.

Report No.	Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
<b>PERFORMANCE REPORTS</b>						
08-P-0134	FY 2007 FISMA Review of Chemical Safety Board	21-Apr-08	0	0	0	0
08-P-0141	Tracking Compliance with Superfund Clean-up Requirements	28-Apr-08	0	0	0	0
08-P-0169	Management of the National Priorities List	2-Jun-08	0	0	0	0
08-P-0174	Efforts to Address Indoor Risks from Radon	3-Jun-08	0	0	0	0
08-P-0184	Assistance Agreements - Colonias Water Grants Region 6	23-Jun-08	0	0	0	0
08-P-0186	Award of Noncompetitive Contracts	30-Jun-08	0	0	0	0
08-P-0196	Making Better Use of Stringfellow Superfund Special Accounts	9-Jul-08	0	0	0	\$47,800,000
08-P-0199	EPA Needs to Better Report Chesapeake Bay Challenges	14-Jul-08	0	0	0	0
08-P-0200	Follow-up at Escambia Treating Company Superfund Site	14-Jul-08	0	0	0	0
08-P-0206	Voluntary Greenhouse Gas Reduction Programs	23-Jul-08	0	0	0	0
08-P-0213	Oglala Sioux Single Audits	28-Jul-08	0	0	0	0
08-P-0235	EPA Decisions to Delete Superfund Sites	20-Aug-08	0	0	0	0
08-P-0236	Follow-up on Audit of Undistributed Site	25-Aug-08	0	0	0	\$4,673,000
08-P-0245	Border 2012 Program	3-Sep-08	0	0	0	0
08-P-0264	Follow-up at Stauffer Chemical Company Superfund Site	16-Sep-08	0	0	0	0
08-P-0265	Unliquidated Obligations in Brownfields Pilot Grants	16-Sep-08	0	0	0	0
08-P-0266	Assisting Tribal Water Systems	16-Sep-08	0	0	0	0
08-P-0267	Procedures for EPA's Smartcard Program	16-Sep-08	0	0	0	0
08-P-0271	EPA Personnel Access and Security System	22-Sep-08	0	0	0	\$977,718
08-P-0273	Management of EPA Headquarters Internet Protocol	23-Sep-08	0	0	0	0
08-P-0276	EPA Actions Should Lead to Improved Grants Accountability	24-Sep-08	0	0	0	0
08-P-0278	Strategic Planning for Priority Enforcement Areas	25-Sep-08	0	0	0	0
08-P-0280	Fiscal Year 2008 FISMA Report	26-Sep-08	0	0	0	0
08-P-0290	Techniques for State Monitoring of Revolving Funds	29-Sep-08	0	0	0	0
08-P-0291	Region 5 Penalty Reduction	29-Sep-08	0	0	0	0
08-P-0295	FY 2008 FISMA Review of Chemical Safety Board	29-Sep-08	0	0	0	0
	<b>TOTAL PERFORMANCE REPORTS = 26</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$53,450,718</b>
<b>ASSISTANCE AGREEMENT REPORTS</b>						
08-1-0277	National Caucus and Center on Black Aged Incurred Costs	25-Sep-08	0	0	0	0
08-2-0204	Village of Wellsville, Ohio-Grant XP97582801	21-Jul-08	\$15,513	\$1,226,078	0	0
08-2-0226	Passaic Valley Sewerage Commissioners-Grant XP98237601	6-Aug-08	\$1,312,099	0	0	0
08-4-0156	Assistance Agreements - Canaan Valley Institute	19-May-08	\$102,120	\$3,133,807	0	0
	<b>TOTAL ASSISTANCE AGREEMENT REPORTS = 4</b>		<b>\$1,429,732</b>	<b>\$4,359,885</b>	<b>\$0</b>	<b>\$0</b>
<b>SINGLE AUDIT REPORTS</b>						
08-3-0126	Puerto Rico Environmental Quality Board - FY 2005	8-Apr-08	0	0	0	0
08-3-0127	Puerto Rico Environmental Quality Board - FY 2006	8-Apr-08	0	0	0	0
08-3-0128	Alliance for the Chesapeake Bay Inc - FY 2006	9-Apr-08	0	0	0	0
08-3-0161	Boyd Village of FY 2006	20-May-08	0	0	0	0
08-3-0162	Texas State of FY 2006	20-May-08	0	0	0	0
08-3-0163	Marshfield Clinic FY 2006	20-May-08	0	0	0	0
08-3-0164	Madison, Town of FY 2006	22-May-08	0	0	0	0
08-3-0165	Saginaw City of FY 2006	22-May-08	0	0	0	0

Report No.	Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
08-3-0181	Massachusetts Water Pollution Abatement Trust FY 2005	16-Jun-08	0	0	0	0
08-3-0182	Massachusetts Water Pollution Abatement Trust FY 2006	16-Jun-08	0	0	0	0
08-3-0183	Pennsylvania Commonwealth of FY 2006	17-Jun-08	0	0	0	0
08-3-0211	Smithsonian Institution - FY 2005	24-Jul-08	0	0	0	0
08-3-0227	Sac & Fox Nation of Missouri - FY 2007	7-Aug-08	0	0	0	0
08-3-0229	Syracuse City of 2006	7-Aug-08	0	0	0	0
08-3-0231	Rural Community Partnership Inc and Safe Water Trust 2006	7-Aug-08	0	0	0	0
08-3-0237	Wyoming State of FY 2006	25-Aug-08	0	0	0	0
08-3-0238	Louisiana State of FY 2005	25-Aug-08	0	0	0	0
08-3-0239	Wayne Charter County of FY 2006	25-Aug-08	0	\$308	0	0
08-3-0240	Northeast States for Coordinated Air Use Mgmt. - FY 2005	27-Aug-08	0	0	0	0
08-3-0242	Southern California University of FY 2007	2-Sep-08	0	0	0	0
08-3-0243	Albuquerque City of FY 2005	2-Sep-08	\$213,668	\$128,710	0	0
08-3-0247	North Dakota State of FY 2006	4-Sep-08	0	0	0	0
08-3-0248	Alliance to Save Energy 2006	4-Sep-08	0	\$11,345	0	0
08-3-0249	Indian Township Tribal Government FY 2005	5-Sep-08	0	0	0	0
08-3-0250	Indian Township Tribal Government FY 2006	5-Sep-08	0	\$26,134	0	0
08-3-0252	Illinois Institute of Technology FY 2006	8-Sep-08	0	0	0	0
08-3-0253	Lawrence Technological University - FY 2006	8-Sep-08	0	0	0	0
08-3-0254	California State of FY 2006	8-Sep-08	0	0	0	0
08-3-0256	Athabaskan Tribal Governments - Council of - FY 2006	9-Sep-08	\$4,185	0	0	0
08-3-0257	Northeast States for Coordinated Air Use Mgmt. - FY 2006	9-Sep-08	0	\$29,429	0	0
08-3-0281	Te-Moak Tribe of Western Shoshone, FY 2004	26-Sep-08	0	\$5,069	0	0
08-3-0283	Te-Moak Tribe of Western Shoshone, FY 2006	26-Sep-08	0	\$4,141	0	0
08-3-0285	Augusta Richmond County 2006	26-Sep-08	0	0	0	0
08-3-0286	Concurrent Technologies Corporation - FY 2006	26-Sep-08	0	0	0	0
08-3-0296	Kitsap County WA FY 2006	29-Sep-08	0	0	0	0
08-3-0297	Jersey City Municipal Utilities Authority, FY 2006	29-Sep-08	0	0	0	0
08-3-0298	NADO Research Foundation, FY 2005	29-Sep-08	0	0	0	0
08-3-0299	Northeast States for Coordinated Air Use Mgmt. - FY 2007	29-Sep-08	0	0	0	0
08-3-0304	Suquamish Tribe, FY 2006	30-Sep-08	0	0	0	0
08-3-0307	Oglala Sioux Tribe FY 2004	30-Sep-08	0	\$1,158,903	0	0
	<b>TOTAL SINGLE AUDIT REPORTS = 40</b>		<b>\$217,853</b>	<b>\$1,364,039</b>	<b>\$0</b>	<b>\$0</b>
<b>DEFENSE CONTRACT AUDIT AGENCY (DCAA) CONTRACT REPORTS</b>						
08-1-0124	IBM Global Services – Federal - FY 2005 Incurred Cost	3-Apr-08	0	0	0	0
08-1-0125	Tetra Tech, Inc. - FY 2005 Incurred Cost	8-Apr-08	0	0	0	0
08-1-0129	National Academy of Science - FY 2005 Incurred Costs	10-Apr-08	\$45,280	0	0	0
08-1-0130	Morrison Knudsen Corporation-FY 1999 Incurred Cost	15-Apr-08	\$57,369	0	0	0
08-1-0131	Washington Group International, Inc.-FY2001 Incurred Cost	15-Apr-08	\$44,648	0	0	0
08-1-0132	IIT Research Institute - FY 2002 Incurred Cost	28-Apr-08	\$8,144	0	0	0
08-1-0133	Alion Science & Tech (formerly IITRI)-FY 2004 Incurred Cost	28-Apr-08	\$52,793	0	0	0
08-1-0136	Dynamac Corporation - FY 12/31/2004 Incurred Cost	24-Apr-08	\$17,291	0	0	0
08-1-0137	Planners Collaborative, Inc. - FY 12/31/2003 Incurred Cost	24-Apr-08	\$40	0	0	0
08-1-0138	Hagler Bailly-FY1998 Incurred Cost	28-Apr-08	\$3,161	0	0	0
08-1-0139	Resource Management Concepts, Inc.-FY2000 Incurred Cost	28-Apr-08	0	0	0	0
08-1-0140	Resource Management Concepts, Inc.-FY 2003 Incurred Cost	28-Apr-08	0	0	0	0
08-1-0148	Dynamac Corporation - FY 2005 Incurred Cost	1-May-08	0	0	0	0
08-1-0177	Guardian Environmental Services, Inc. - FY 2005 Incurred Cost	9-Jun-08	0	0	0	0
08-1-0178	CDM Federal Program Corporation - FY 2006 Incurred Cost	17-Jun-08	0	0	0	0
08-1-0179	Perrin Quarles Associates - FY 2006 Incurred Cost	17-Jun-08	\$195	0	0	0
08-1-0180	Scientific Consulting Group, Inc. - FY 2005 Incurred Cost	17-Jun-08	\$212,106	0	0	0
08-1-0185	Herrera Environmental Consultants - FY 2005 Incurred Cost	26-Jun-08	\$262	0	0	0
08-1-0187	Industrial Economics, Inc. - FY 2005 I/C	1-Jul-08	0	0	0	0
08-1-0188	EC/R Incorporated - FY 2005 I/C	30-Jun-08	\$230,351	0	0	0
08-1-0189	Systems Research & Applications - FY 06/30/2006 I/C	1-Jul-08	\$54,840	0	0	0
08-1-0190	TN & Associates - FY 2005 Incurred Cost	1-Jul-08	\$15,229	0	0	0
08-1-0191	HydroGeoLogic, Inc. - FY 2005 Incurred Cost	1-Jul-08	0	0	0	0
08-1-0197	Zedek Corporation- FY 10/31/2005 I/C	9-Jul-08	\$2,419	0	0	0

Report No.	Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
08-1-0198	Metcalf & Eddy Inc. - FY 2006 Incurred Cost	10-Jul-08	\$14,453	0	0	0
08-1-0201	DCT, Incorporated - FY 2005 Incurred Cost	16-Jul-08	0	0	0	0
08-1-0205	Planners Collaborative, Inc. - FY 12/31/2004 Incurred Cost	22-Jul-08	0	0	0	0
08-1-0212	Tetra Tech EC, Inc. - FY 2006 Incurred Cost	28-Jul-08	0	0	0	0
08-1-0214	CH2M Hill, Inc. - FY 2006 Incurred Cost	5-Aug-08	\$833,683	0	0	0
08-1-0216	Versar, Inc. - FY 2006 Incurred Cost	4-Aug-08	\$4,000	0	0	0
08-1-0217	CH2M Hill, Group FY 2006 Incurred Cost	5-Aug-08	0	0	0	0
08-1-0218	CH2M Hill, CCI - FY 2006 Incurred Cost	5-Aug-08	0	0	0	0
08-1-0219	CH2M Hill, LTD (Home Office) - FY 2006 Incurred Cost	5-Aug-08	0	0	0	0
08-1-0220	Project Resources, Inc. - FYE 12/31/2005 Incurred Cost	5-Aug-08	0	0	0	0
08-1-0233	ABT Associates, Inc - FYE 3/31/2004 Incurred Cost Audit	22-Aug-08	0	0	0	0
08-1-0255	URS Group, Inc. - FY 2004 Incurred Cost	9-Sep-08	0	0	0	0
08-1-0260	Environmental Health & Engineering, Inc.-FY 2005 I/C	12-Sep-08	0	0	0	0
08-1-0263	Industrial Economics, Inc. - FY 2006 Incurred Cost	12-Sep-08	0	0	0	0
08-1-0268	Perrin Quarles Associates, Inc. - FY 2007 Incurred Cost	17-Sep-08	\$85,958	0	0	0
08-1-0269	Wilson Environmental - FY 2006 Incurred Cost	17-Sep-08	0	0	0	0
08-1-0301	URS Group Inc. - FY 2005 Incurred Cost	29-Sep-08	0	0	0	0
08-1-0302	Syracuse Research Corporation - FY 2007 Incurred Cost	29-Sep-08	0	0	0	0
08-1-0306	DPRA, Inc. - FY 03/31/2007 Incurred Cost	30-Sep-08	0	0	0	0
08-2-0192	URS Corp.-FY2001 RAC Close-out 68-W-98-228	1-Jul-08	0	0	0	0
08-2-0209	URS Corp.-FY 2002 RAC Annual Close-out 68-W-98-228	24-Jul-08	\$108,758	0	0	0
08-2-0210	SAIC - CAC #68-W1-0055	24-Jul-08	\$433,036	0	0	0
08-2-0232	Aqua Terra Consultants - FY 2006 Incurred Cost	12-Aug-08	0	0	0	0
08-2-0246	Tetra Tech EM, Inc. - FY 2004 RAC 68-W6-0037	4-Sep-08	0	0	0	0
08-2-0251	Kemron Environmental Services - FY 05/31/2005 I/C	8-Sep-08	0	0	0	0
08-4-0135	PARS Environmental, LLC- Post Award Provisional Bill Rate	21-Apr-08	0	0	0	0
08-4-0144	Syracuse Research Corporation - Mod. Financial Capability	29-Apr-08	0	0	0	0
08-4-0145	Cadmus Group, Inc. - Floorcheck	30-Apr-08	0	0	0	0
08-4-0147	Battelle Memorial Institute - CAS 416	1-May-08	0	0	0	0
08-4-0150	Syracuse Research Corporation - CAS 404	8-May-08	0	0	0	0
08-4-0151	Battelle Memorial Institute - ICAPS Purchasing Follow-Up	9-May-08	0	0	0	0
08-4-0152	Battelle Memorial Institute - ICAPS Compensation	9-May-08	0	0	0	0
08-4-0153	Battelle Memorial Institute - OCEO CAS 412 & CAS 413	9-May-08	0	0	0	0
08-4-0155	Applikon Analyzers, Inc. - Proposal	20-May-08	0	0	0	\$2,240,000
08-4-0157	EG&G - FY 2006 Accounting System Audit	20-May-08	0	0	0	0
08-4-0158	EG&G - FY 2006 CAS 409	20-May-08	0	0	0	0
08-4-0159	EG&G - FY 2006 CAS 411	20-May-08	0	0	0	0
08-4-0160	EG&G - FY 2006 Estimating System	20-May-08	0	0	0	0
08-4-0166	Syracuse Research Corporation - CAS 409	27-May-08	0	0	0	0
08-4-0167	Eastern Research Group - CAS 404	27-May-08	0	0	0	0
08-4-0168	Eastern Research Group - CAS 409	28-May-08	0	0	0	0
08-4-0170	Arcadis Geraghty & Miller - Provisional Billing Rate	30-May-08	0	0	0	0
08-4-0171	Syracuse Research Corporation - CAS 408	30-May-08	0	0	0	0
08-4-0172	Syracuse Research Corporation - CAS 411	30-May-08	0	0	0	0
08-4-0173	CH2M Hill, Inc. (INC)- FY 2006 Billing System	2-Jun-08	0	0	0	0
08-4-0175	Applikon Analyzers, Inc. - Pre-Award Accounting System	4-Jun-08	0	0	0	0
08-4-0176	Applikon Analyzers, Inc. - Financial Capability	4-Jun-08	0	0	0	0
08-4-0193	Eisenstein Malanchuk LLP - Preaward Acctg Sys Follow-up	3-Jul-08	0	0	0	0
08-4-0195	Mactec Engineering & Consulting, Inc. - CAS 409	9-Jul-08	0	0	0	0
08-4-0202	Mactec Engineering & Consulting, Inc. - CAS 418	17-Jul-08	0	0	0	0
08-4-0203	Tetra Tech EC, Inc. - Compensation Audit	17-Jul-08	0	0	0	0
08-4-0207	Metcalf & Eddy, Inc. - Floorcheck	24-Jul-08	0	0	0	0
08-4-0208	MACTEC Engineering & Consulting, Inc - CAS 409	24-Jul-08	0	0	0	0
08-4-0215	Syracuse Research Corporation - Voucher Exam	4-Aug-08	0	0	0	0
08-4-0221	Booz Allen Hamilton - CAS 404	5-Aug-08	0	0	0	0
08-4-0222	Booz Allen Hamilton - CAS 408	5-Aug-08	0	0	0	0
08-4-0223	Booz Allen Hamilton - CAS 420	5-Aug-08	0	0	0	0
08-4-0224	Booz Allen Hamilton - Estimating System	5-Aug-08	0	0	0	0
08-4-0225	Booz Allen Hamilton - FY 2009-2013 Forward Price Rates	5-Aug-08	0	0	0	0

Report No.	Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
08-4-0228	Weston Solutions, Inc. - Financial Control Risk Assess.	7-Aug-08	0	0	0	0
08-4-0230	Pacific Western Technologies, LTD. - FY 07 Prov Billing Rate	7-Aug-08	0	0	0	0
08-4-0234	Pacific Western Technologies, LTD. - Floor Check	20-Aug-08	0	0	0	0
08-4-0244	Mactec Engineering & Consulting, Inc. - CAS 420	3-Sep-08	0	0	0	0
08-4-0258	Pacific Western Technologies, LTD. - Accounting System	12-Sep-08	0	0	0	0
08-4-0259	Mactec Engineering & Consulting, Inc. - MAAR 6	12-Sep-08	0	0	0	0
08-4-0261	Cadmus Group, Inc. - CAS 420	12-Sep-08	0	0	0	0
08-4-0262	Battelle Memorial Institute - Estimating System Surveys	12-Sep-08	0	0	0	0
08-4-0272	Pegasus Technical Services - Floor Check	22-Sep-08	0	0	0	0
08-4-0274	Sonoma Technology, Inc. - Floorcheck	24-Sep-08	0	0	0	0
08-4-0275	Weston Solutions, Inc. - FY 2006 CAS 413	25-Sep-08	0	0	0	0
08-4-0279	Eastern Research Group - CAS 420	25-Sep-08	0	0	0	0
08-4-0282	Pegasus Technical Services - Paid Voucher Review	26-Sep-08	0	0	0	0
08-4-0284	Pegasus Technical Services - Accounting System	26-Sep-08	0	0	0	0
08-4-0287	The McConnell Group, Inc. - Preaward Accounting System	26-Sep-08	0	0	0	0
08-4-0288	Sonoma Technology, Inc. - Financial Capability	26-Sep-08	0	0	0	0
08-4-0289	Tetra Tech EC, Inc. - CAS 420	26-Sep-08	0	0	0	0
08-4-0292	Mactec Engineering & Consulting, Inc. - CAS 410	29-Sep-08	0	0	0	0
08-4-0293	Mactec Engineering & Consulting, Inc. - CAS 408	29-Sep-08	0	0	0	0
08-4-0294	Mactec Engineering & Consulting, Inc. - CAS 404	29-Sep-08	0	0	0	0
08-4-0300	Environmental Quality Management - Floor Check	29-Sep-08	0	0	0	0
08-4-0303	E2, Inc. - Accounting System Follow-up	29-Sep-08	0	0	0	0
08-4-0305	Environmental Quality Management - Financial Capability	30-Sep-08	0	0	0	0
08-4-0308	Tetra Tech EC, Inc. - EDP General Controls	30-Sep-08	0	0	0	0
	<b>TOTAL DCAA CONTRACT REPORTS = 107</b>		<b>\$2,224,016</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,240,000</b>
<b>OIG CONTRACT REPORTS</b>						
08-4-0143	Tech Law Labor Charges	29-Apr-08	\$2,054	0	0	0
08-4-0146	Cambridge Labor Charging Verification Review	30-Apr-08	0	0	0	0
08-4-0154	Tetra Tech Labor Charging Verification Review	19-May-08	\$440,358	0	0	0
08-4-0270	Final Mixed Funding Claim for Old Southington Superfund Site	18-Sep-08	0	0	0	0
	<b>TOTAL OIG CONTRACT REPORTS = 4</b>		<b>\$442,412</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FINANCIAL STATEMENT REPORTS</b>						
08-1-0149	2007 PRIA Financial Statements	5-May-08	0	0	0	0
08-1-0194	2007 FIFRA Financial Statements	8-Jul-08	0	0	0	0
08-2-0142	Agreed Upon Procedures-FY 2008 1 <sup>st</sup> Qtr Fin. Statements	28-Apr-08	0	0	0	0
08-2-0241	Agreed Upon Procedures-FY 2008 2 <sup>nd</sup> Qtr Fin. Statements	27-Aug-08	0	0	0	0
08-2-0309	Agreed Upon Procedures-FY 2008 3 <sup>rd</sup> Qtr Fin. Statements	30-Sep-08	0	0	0	0
	<b>TOTAL FINANCIAL STATEMENT REPORTS = 5</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
	<b>TOTAL REPORTS ISSUED = 186</b>		<b>\$4,314,013</b>	<b>\$5,723,924</b>	<b>\$0</b>	<b>\$55,690,718</b>

## Appendix 2 - Reports Issued Without Management Decisions

### For Reporting Period Ending September 30, 2008

The Inspector General Act requires a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period, an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report. In the summaries below, we note the Agency's explanation of the reasons management decision has not been made, the Agency's desired timetable for achieving a management decision, and the OIG follow-up status as of September 30, 2008.

#### Office of Air and Radiation

##### **Report No. 2004-P-00033, *Effectiveness of Strategies to Reduce Ozone Precursors*, September 29, 2004**

*Summary:* Our analysis of EPA emissions data for "serious," "severe," and "extreme" ozone nonattainment areas indicated that some major metropolitan areas may not have achieved the required 3-percent annual emission reductions in ozone precursor emissions. While EPA air trend reports have emphasized that ozone levels are declining nationally and regionally, only 5 of 25 nonattainment areas designated serious to extreme had substantial downward trends. We continue to believe EPA should issue a Milestone Compliance Demonstration rule for serious, severe, and extreme ozone nonattainment areas.

*Agency Explanation:* EPA recently issued a lower ozone standard and expects to finalize the associated implementation rule in fall 2009. Based on the resulting classifications of ozone attainment and non-attainment areas, the EPA will revisit the effectiveness of the OIG's recommendation for Milestone Compliance Demonstration guidance. Expect resolution by December 2009.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

##### **Report No. 2005-P-00003, *Development of the Proposed MACT for Utility Units*, February 3, 2005**

*Summary:* Evidence indicated that EPA senior management instructed EPA staff to develop a Maximum Achievable Control Technology (MACT) standard for mercury that would result in national emissions of 34 tons annually, instead of basing the standard on an unbiased determination of what the top performing coal-fired units were achieving in practice. The Clean Air Act requires that a MACT standard should, at a minimum, be based on the emissions levels achieved by the top performing 12 percent of units – not a targeted national emissions result. We believed it was likely that the standard understated the average amount of mercury emissions reductions achieved by the top performing 12 percent of power units. Thus, the MACT standard, if adopted, would not achieve the maximum emission reductions achievable. Shortly after we issued our final report, EPA de-listed mercury as an air toxic subject to MACT standards and issued the Clean Air Mercury Rule that established a trading program for mercury emissions. This action meant our recommendations regarding the development of a mercury MACT were no longer applicable. However, 16 States challenged EPA's decision in a lawsuit, and we agreed to hold the recommendations in abeyance until the court case is resolved. The DC Court of Appeals vacated EPA's Clean Air Mercury Rule on February 8, 2008. On October 17, 2008, EPA filed a "writ of certiorari" with the Supreme Court to have the DC Appeals court ruling overturned.

*Agency Explanation:* Per OIG, resolution on hold, beyond Agency control. EPA received ruling on Clean Air Mercury Rule and is determining the next action. Expected resolution by March 2009.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

##### **Report No. 08-P-0020, *MACT Implementation Progress and Challenges*, October 31, 2007**

*Summary:* EPA plans to use National Emissions Inventory data to assess the public health risk remaining from MACT sources of air toxics emissions, but the reliability of National Emissions Inventory data for site-specific emissions varies considerably. The Agency has not agreed to establish the recommended State reporting requirements, and we consider the issue unresolved.

*Agency Explanation:* The Agency is working with the OIG to resolve one of the recommendations. Expect resolution by January 2009.

*OIG Follow-up Status:* Resolution under negotiation in Headquarters.

### Office of Administration and Resources Management

#### **Report No. 2007-P-00011, Review of Interagency Contracts, March 27, 2007**

*Summary:* We sought to determine whether EPA effectively follows interagency contracting requirements by ensuring products and services meet quality, cost, and timeliness requirements. We also looked into opportunities to improve the process. We recommended that EPA provide guidance to project officers for developing Independent Government Costs Estimates or other appropriate cost information, as well as cost reasonableness assessments.

*Agency Explanation:* The interim procedures to implement the guidance have been sent to the OIG for review. The Agency is waiting for the OIG's response and expects final action by October 30, 2008.

*OIG Follow-up Status:* Incomplete response received.

### Financial Analysis and Rate Negotiation Service Center

#### **Report No. 2004-1-00099, Lockheed Martin Services Group - FYE 12/31/2002 Incurred Cost, August 23, 2004**

*Summary:* DCAA questioned indirect costs of \$3,595,399, of which \$2,128 is applicable to EPA contracts. DCAA qualified the audit results pending receipt of assist audit reports.

*Agency Explanation:* Audit resolution on hold due to other cognizant federal agency (Department of Defense).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

#### **Report No. 2006-4-00120, National Academy of Sciences - FY 2006 Info Tech System, July 20, 2006**

*Summary:* DCAA determined that the contractor's information technology system general internal controls are inadequate in part.

*Agency Explanation:* Audit on hold due to other cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

#### **Report No. 2006-4-00165, National Academy of Sciences - FY 2006 Indirect/ODC System, September 27, 2006**

*Summary:* In DCAA's opinion, the contractor service centers cost system and related internal control policies and procedures are inadequate in part. DCAA's examination noted certain significant deficiencies in the design or operation of the Indirect/Other Direct Costs system process.

*Agency Explanation:* Audit on hold due to other cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

#### **Report No. 2006-4-00169, National Academy of Sciences - FY 2006 Labor System, September 29, 2006**

*Summary:* In DCAA's opinion, the contractor's labor system and related internal control policies and procedures are inadequate in part. DCAA's examination noted certain significant deficiencies in the design or operation of the internal control structure.

*Agency Explanation:* Audit on hold due to other cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-4-00011, National Academy of Sciences - FY2006 Electronic Time System, October 24, 2006**

*Summary:* DCAA determined contractor's Electronic Timekeeping System internal controls to be inadequate in part.

*Agency Explanation:* Audit resolution on hold due to other cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00016, URS Corporation (c/o URS Greiner, Inc.) - FY2001 Incurred Cost, November 13, 2006**

*Summary:* DCAA questioned a total of \$188,772,784 in direct and indirect costs. Of these, \$5,585,929 are claimed direct costs, of which \$1,328,189 are from EPA Contract No. 68-W9-8225. The questioned indirect expenses, impacted all eight fringe, overhead, and General and Administrative rates. Of the questioned indirect costs, EPA's share is \$401,412, for a total of \$1,729,601 in questioned direct and indirect costs. We note that the contractor did not agree with the questioned costs, so the Cumulative Allowable Cost Work Sheet files provided by the contractor are not adjusted for the questioned costs.

*Agency Explanation:* Audit resolution on hold due to other cognizant federal agency (Department of Defense).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-4-00038, Weston Solutions - FY 2006 Floor Checks, January 8, 2007**

*Summary:* DCAA expressed no opinion on the adequacy of the contractor's labor accounting system taken as a whole, as it had determined that certain labor practices required corrective action to improve the reliability of the labor accounting system. The conditions are detailed in the "Statement of Conditions and Recommendations" section of the report.

*Agency Explanation:* This audit will be held open pending the results of the follow-up audit in 6 months.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00059, National Academy of Sciences – FY 12/31/2004 Incurred, April 5, 2007**

*Summary:* In DCAA's opinion the claimed direct costs are acceptable, however there are \$787,774 in questioned indirect costs of which \$70,900 are applicable to EPA contracts.

*Agency Explanation:* This audit is on hold awaiting information on the resolution of the questioned costs by the cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00061, Lockheed Martin Services Group – FY 12/31/2004 I/C, April 10, 2007**

*Summary:* DCAA questioned \$34,708,911 in claimed direct costs and proposed indirect costs. Further, DCAA set aside \$338,864,655 in claimed direct and indirect costs pending receipt of assist audits and/or calculation of the impact of intercompany allocations on the various indirect cost pools. Additionally, DCAA upwardly adjusted (\$48,224,805) in claimed base costs.

Questioned Costs - Direct	\$21,581,464
Questioned Costs - Indirect	<u>13,127,447</u>
Total Questioned Costs	\$34,708,911
EPA ADV Percentage	<u>.02</u>
EPA Share of Questioned Costs	\$694,178

DCAA did not provide any Cumulative Allowable Cost Work Sheet or Schedule of Allowable Costs by Cost Element by Contract because the most current year with negotiated indirect rates is calendar year 1998. DCAA will issue a supplemental audit report upon completion of its analysis of the assist audit results, and as the outstanding fiscal years indirect rates are negotiated, the requested Cumulative Allowable Cost Work Sheet and Schedule of Allowable Costs by Cost Element by Contract will be provided.

*Agency Explanation:* This audit is on hold awaiting information on the resolution of the questioned costs by the cognizant federal agency (Department of Defense).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-4-00058, SAIC – Companies 1, 6, and 9 – FY 2006 Floorchecks, April 30, 2007**

*Summary:* DCAA determined that certain labor practices require corrective action to improve the reliability of the contractor's labor accounting system. DCAA did not express an opinion on the adequacy of the contractor's labor accounting system taken as a whole.

*Agency Explanation:* This audit is on hold waiting on the resolution of the identified deficiency by the cognizant federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00079, Science Applications Intl. Corporation – FYE 1/31/2005 I/C, July 18, 2007**

*Summary:* DCAA submitted three audit reports under this assignment: SAIC Corporate Home Office (Company 9) Report # 2005A101001, SAIC Research & Development (Company 1) Report # 2005B10100001, and SAIC Pacific Technology Service (Company 6) Report # 2005C10100001. DCAA questioned proposed indirect costs and rates at Companies 1, 6, and 9. DCAA questioned a total of \$17,224,585 of Company 9 claimed indirect expenses (\$9,938,874) and Fringe Benefits costs and rates (\$7,285,711), of which \$7,762,651 was allocated to other companies which do not perform government work. Questioned indirect costs of \$3,525,230 and \$4,552,250 were allocated to and questioned in the claimed General and Administrative costs and rates of Companies 1 and 6, respectively. The questioned Fringe Benefits rates in Company 9 resulted in questioned fringe benefits costs of \$865,365 and \$519,089 for Companies 1 and 6, respectively. DCAA questioned an additional \$1,995,869 of Company 1 claimed indirect expenses, and an additional \$511,822 of Company 6 claimed indirect expenses. Total questioned costs in Companies 1 and 6 are \$11,969,625, of which \$119,696 are applicable to EPA contracts.

*Agency Explanation:* This audit is on hold waiting on the resolution of the identified deficiency by the cognizant federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00080, Lockheed Martin Services, Inc. – FY 2005 Incurred Cost, August 6, 2007**

*Summary:* DCAA questioned \$595,792,539 in claimed direct costs and \$10,982,460 in proposed indirect costs and rates. None of the questioned direct costs are chargeable to any of the EPA contracts. A number of the EPA contracts have indirect ceiling rates which are lower than the contractor's proposed indirect rates, and are not impacted by the questioned indirect expenses and rates. However, there are EPA contracts/subcontracts which do not have indirect ceiling rates and are impacted by the questioned indirect rates.

	<i>Questioned Costs</i>		<i>EPA's Share</i>
Indirect Costs	\$17,623,213	1.21%	\$213,531
Adjustment to G&G Base Costs	<u>( 6,640,753)</u>	1.21%	<u>( 80,462)</u>
Total Questioned Indirect Costs	\$10,982,460		\$133,069

*Agency Explanation:* This audit is on hold waiting on the resolution of the identified deficiency by the cognizant federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00090, ABT Associates Inc. – FY 2002 Incurred Cost, August 29, 2007**

*Summary:* DCAA questioned a total of \$2,206,870 in questioned costs, \$5,363 of proposed direct costs, and \$2,201,507 of proposed indirect costs and rates. EPA's share of the questioned indirect costs is \$123,686. None of the questioned direct costs impact an EPA contract.

*Agency Explanation:* This audit is on hold awaiting information on the resolution of the questioned indirect costs and rates by the cognizant federal agency (U.S. Agency for International Development).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-1-00097, National Academy of Sciences FYE 12/31/2003 Incurred Cost, September 20, 2007**

*Summary:* In DCAA's opinion, the contractor's questioned costs increased to \$300,645, of which EPA's portion is \$27,058 (9 percent)

*Agency Explanation:* On hold due to other federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-4-00079, Weston Solutions, Inc. – FY 2006 Billing System, September 25, 2007**

*Summary:* In DCAA's opinion, the contractor's billing system and related internal control policies and procedures are inadequate in part. DCAA's examination noted certain significant deficiencies in the design or operation of the internal control structure, which in its judgment could adversely affect the contractor's ability to record, process, summarize, and report billings in a manner that is consistent with applicable Government contract laws and regulations. DCAA identified nine deficiencies during the course of the examination. The contractor has agreed to have the corrective action for all listed deficiencies implemented by September 30, 2007.

*Agency Explanation:* On hold due to other federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2007-4-00080, National Academy of Sciences – FY 2006 Budget System, September 26, 2007**

*Summary:* In DCAA's opinion, the budget and planning system and related internal control policies and procedures are inadequate in part.

*Agency Explanation:* This audit is on hold awaiting information on the resolution of the cited inadequacies by the cognizant federal agency (Office of Naval Research).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 08-4-0002, SAIC – Company 1 – Compensation Follow-Up, October 2, 2007**

*Summary:* In DCAA's opinion, the contractor's compensation system and related internal control policies and procedures are inadequate in part. DCAA's examination noted certain significant deficiencies in the design or operation of the internal control structure, which could adversely affect the contractor's ability to record, process, summarize, and report compensation in a manner that is consistent with applicable government contract laws and regulations.

*Agency Explanation:* This audit is on hold awaiting information on the resolution of the questioned costs from the cognizant federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 08-1-0114, Weston Solutions Inc. – FY 12/31/2004 Incurred Cost, March 24, 2008**

*Summary:* DCAA determined that the contractor's claimed direct costs are acceptable, however, DCAA questioned \$2,082,837 in proposed indirect costs and rates. Of these questioned costs are \$1,600,000 in questioned proposed overhead costs which the contractor does not concur with. Further, DCAA applied penalties in accordance with Federal Acquisition Regulation 42.709, and identified expressly unallowable costs subject to penalty that had been allocated to various contracts specified in Federal Acquisition Regulation 42.709(b), including 11 EPA contracts. Of the questioned costs, EPA's total share of questioned costs is \$197,869, of which \$152,000 is questioned overhead costs, \$12,163 is the remaining questioned overhead costs, and \$33,706 is the questioned General and Administrative costs. DCAA did not include the Schedule of Allowable Costs by Cost Element by Contract or the Cumulative Allowable Costs by Contract Worksheet as requested.

*Agency Explanation:* This audit is on hold awaiting resolution of the questioned indirect costs and rates by the cognizant federal agency (Defense Contract Management Agency).

*OIG Follow-up Status:* Resolution pending receipt of additional information.

### **Grants and Interagency Agreements Management Division (GIAMD) - formerly Grants Administration Division**

#### **Report No. 2002-2-00008, MBI International Assistance Agreement, January 29, 2002**

*Summary:* MBI did not have adequate justification to support the award of sole source contracts. Also, MBI's procurement practices did not meet federal requirements. As a result, \$1,301,365, consisting of \$1,201,857 in contract costs and \$99,508 in consultant costs, is not eligible for federal reimbursement. Further, there were apparent conflicts of interest between MBI, its subsidiary (GRT), and companies created by GRT.

*Agency Explanation:* Office of Grants and Debarment and Office of General Counsel met to discuss the status of the MBI audit and the drafted final decision letter. Also, the dispute arguments presented by MBI and possible future steps and resolutions were considered. Agency expects resolution by January 2009.

*OIG Follow-up Status:* Report reactivated/awaiting response.

#### **Report No. 2003-S-00001, Region 7 Grants Proactive, May 29, 2002**

*Summary:* We questioned over \$2 million because the Coordinating Committee on Automotive Repair (CCAR) did not account for the funds in accordance with federal rules, regulations, and terms of the agreement.

*Agency Explanation:* OIG questioned all costs claimed (\$2,026,837) on three projects between 1995-2001. CCAR has submitted the required indirect cost rate information for the audit period and has provided documentation that its financial management system and time distribution system meet the requirements of EPA's assistance regulations and OMB Circular A-122. However, reconstructed accounting records CCAR submitted in December 2005 for FYs 1996 and 1997 do not substantiate the costs they charged to the project. EPA requested additional information to substantiate the costs, but CCAR has not responded. EPA will follow up with CCAR and issue the final determination disallowing costs by November 2008.

*OIG Follow-up Status:* Incomplete Response Received.

#### **Report No. 2003-3-00113, American Indian Science & Engineering Society 2000, April 23, 2003**

*Summary:* Costs were not approved or were not supported. Questioned costs for this report totaled \$104,760.

*Agency Explanation:* There are two reports under review for the years 2000 and 2001. The reports include findings of inadequate internal controls and questioned costs totaling \$163,125. These reports have been reviewed and the recipient has submitted responses to the findings indicating that procedures have been implemented and the conditions no longer exist. However, GIAMD has received a subsequently issued audit report for audit period 2002. Although this latest report does not question any costs, it contains findings that some of the pre-existing internal control issues still exist. GIAMD is working on a combined resolution addressing the findings in all of the audit reports. Final determination is expected October 31, 2008.

*OIG Follow-up Status:* Report reactivated/awaiting response.

#### **Report No. 2003-3-00114, American Indian Science & Engineering Society 2001, April 23, 2003**

*Summary:* Costs were not approved and not properly supported. Questioned costs for this report totaled \$58,365.

*Agency Explanation:* There are two reports under review for the years 2000 and 2001. The reports include findings of inadequate internal controls and questioned costs totaling \$163,125. These reports have been reviewed and the recipient has submitted responses to the findings indicating that procedures have been implemented and the conditions no longer exist. However, GIAMD has received a subsequently issued audit report for audit period 2002. Although this latest report does not question any costs, it contains findings that some of the pre-existing internal control issues still exist. GIAMD is working on a combined resolution addressing the findings in all of the audit reports. Final determination is expected October 31, 2008.

*OIG Follow-up Status:* Report reactivated/awaiting response.

**Report No. 2003-4-00120, Geothermal Heat Pump Consortium, Inc. - Costs Claimed, September 30, 2003**

*Summary:* Questioned \$1,153,472 due to material financial management deficiencies. The Consortium's financial management system was inadequate in that the Consortium did not (1) separately identify and accumulate costs for all direct activities, such as membership support and lobbying; (2) account for program income generated by the activities funded by the EPA agreements; (3) prepare or negotiate indirect cost rates; (4) prepare written procedures for allocating costs to final cost objectives; (5) maintain an adequate labor distribution system; and (6) provide adequate support for direct cost allocations. The Consortium also did not (1) competitively procure contractual services or perform any of the required cost and price analyses; and (2) comply with all report requirements.

*Agency Explanation:* Office of Grants and Debarment is reviewing the financial statements and the lobbying disclosure statements to identify allowable costs. Grants Specialist and new Branch Chief are working to resolve the issues of this audit. Resolution is expected in January 2009.

*OIG Follow-up Status:* No response.

**Report No. 2005-3-00036, National Indian Health Board, FY 2002, December 30, 2004**

*Summary:* The Board was allocating salary costs to grants based on pre-determined formulas. No support, in the form of time sheets, was located for those allocations. Also, amounts charged to various grants were not always supported by original documentation. Therefore, we questioned \$31,960 as unsupported.

*Agency Explanation:* The information that the Board sent to the Office of Grants and Debarment did not address the issues in the audit. GIAMD requested additional information from the Board to provide actual documents to support the issues in the audit. Agency expects a Final Determination Letter by December 2008.

*OIG Follow-up Status:* No response.

**Report No. 2006-3-00006, Alfred University, FY 2004, October 13, 2005**

*Summary:* The University's accounting system provided certified payroll information on an individual grant basis. However, the payroll distribution system did not provide a proportionate break down of each employee's total time between each sponsored program he/she was working on and other non-sponsored activities. The auditor questioned costs of \$649,506, but could not determine the direct impact upon EPA's program.

*Agency Explanation:* We received a second Alfred University audit with precisely the same type of findings and decided to combine the two audits. We had received requested information for the first audit and are now requesting more information to document support needed for the additional findings. This support requires recreating documentation, which includes finding and contacting professors to obtain certification of time and work performed by students who no longer work there; and student identification numbers, account numbers used, etc. Documentation received to date has been sufficient to substantiate the support needed in the first audit. Based upon previous documentation submitted and sameness of findings, we anticipate all documentation, when received, will be sufficient to support payments made to the students and that costs questioned will be supported through such documentation. A Final Determination Letter is anticipated by October 30, 2008.

*OIG Follow-up Status:* No response.

**Report No. 2006-4-00122, Association of State and Interstate Water Pollution Control Administrators, July 31, 2006**

*Summary:* The Association did not comply with the financial and program management standards and the procurement standards promulgated in Title 40 Code of Federal Regulations, Subchapter B, Part 30. The Association (1) could not provide support for any of its general journal entries; (2) included duplicate recorded costs in its accounting system; (3) could not always trace grant draws to the accounting records; (4) could not always support labor charged to the EPA grants; (5) could not support the recorded indirect costs; (6) did not record all of its program income; (7) did not have adequate written procedures for determining reasonable, allocable, and allowable costs; (8) drew EPA grant funds in excess of the funds needed; and (9) did not complete the required single audits for fiscal years ended June 30, 2004, and June 30, 2005. As a result, we questioned as unsupported a total of \$1,883,590 in EPA grant payments for seven grants.

*Agency Explanation:* GIAMD has instructed the Association to submit indirect cost rate proposals for the fiscal years covered in the audit but lacking an indirect cost rate. The Association has provided an October 2008 deadline for this

request. Pending the outcome of the indirect cost rates, GIAMD will issue a Final Determination Letter. Expect resolution by November 5, 2008.

*OIG Follow-up Status:* No response.

**Report No. 2006-3-00199, Howard University, FY 2005, September 7, 2006**

*Summary:* The University had numerous program noncompliances related to timekeeping, funds matching, subrecipient monitoring, financial reporting and equipment disposal.

*Agency Explanation:* The Office of Grants and Debarment is working with the University and requested additional information needed to review the corrective actions. The Office of Grants and Debarment expects the Final Determination Letter in January 2009.

*OIG Follow-up Status:* No response.

**Report No. 2007-4-00026, International City County Management Association, November 28, 2006**

*Summary:* Questioned costs due to (a) lack of competition for contracts, (b) lack of oversight for sub-awards, (c) lack of documentation on sub-grants, and (d) illegal indirect costs.

*Agency Explanation:* The last action being completed is to parse out what costs will be allowable and unallowable for each of the several grants in the audit, including figuring out what additional costs would be unallowable if the National Policy Training and Compliance Division approves of requested deviations. The GIAMD will be working with the National Policy Training and Compliance Division to request one deviation from procurement regulations for one of the questioned contracts and another deviation from in-kind donation documentation standards for much of the Association's proposed cost sharing. Office of Grants and Debarment expects the Final Determination Letter on October 31, 2008.

*OIG Follow-up Status:* No response.

**Report No. 2007-4-00027, National Rural Water Association – Congressional, November 30, 2006**

*Summary:* The Association's method of allocating indirect costs over total direct costs is contrary to the requirements of OMB Circular A-122. Currently, the Association does not exclude subcontracts or subawards from its indirect cost allocation base. As a result, the EPA grants are bearing a disproportionate amount of indirect costs. For the period from March 1, 1999, to February 29, 2004, EPA grants may have been over-allocated by \$2,021,821 in indirect costs. The exact amount of the indirect over-allocation will be determined during negotiating the indirect cost rate.

*Agency Explanation:* Office of Grants and Debarment staff is working with the National Rural Water Association regarding indirect cost rates and how the Association allocated the costs. The Association provided insufficient support and GIAMD is following up. Resolution is expected in January 2009.

*OIG Follow-up Status:* No response.

**Report No. 2007-3-00037, Alfred University - FY 2005, December 11, 2006**

*Summary:* The University's accounting system provided certified payroll information on an individual grant basis. However, the payroll distribution system did not provide a proportionate break down of each employee's total time between each sponsored program he/she may be working on and other non-sponsored activities. The auditor questioned costs of \$649,506, but could not determine the direct impact upon EPA's program.

*Agency Explanation:* This is the second Alfred University audit with precisely the same type of findings as the first audit for FY 2004 and we decided to combine the two audits. We had received requested information for the first audit and are now requesting more information to document support needed for the additional findings. This support requires recreating documentation which includes finding and contacting professors to obtain certification of time and work performed by students who no longer work there; and student identification numbers, account numbers used, etc. A Final Determination Letter is anticipated by October 30, 2008.

*OIG Follow-up Status:* No response.

**Office of Prevention, Pesticides, and Toxic Substances****Report No. 2007-P-00040, Strategic Agricultural Initiative, September 25, 2007**

*Summary:* The Strategic Agricultural Initiative program has not demonstrated how it fulfills its unique role of helping growers transition away from high-risk pesticides as identified by the Food Quality Protection Act. Specifically, the program does not have a strategic plan or similar documents that link project mission and associated goals, logic model, performance measures, and data the program collected. Headquarters and the regions have inconsistent priorities for implementing the program. We recommended that EPA develop a needs assessment for the Strategic Agricultural Initiative program to demonstrate how it fulfills its role in meeting Food Quality Protection Act requirements. If the need is demonstrated, EPA should create a strategic plan that sets clear priorities for program direction. EPA agreed to reassess the need for the program and develop a strategic plan if determined to be needed. These recommendations should result in approximately \$1.5 million in annual grant funds put to better use because either the grants will no longer be needed or their effectiveness will be enhanced.

*Agency Explanation:* Resolution on hold by the OIG.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Office of Solid Waste and Emergency Response****Report No. 2007-P-00029, Resource Conservation and Recovery Act Referrals to Superfund, August 1, 2007**

*Summary:* In April 2004, EPA released a study, *Superfund: Building on the Past, Looking to the Future (the 120-Day Study)*. We evaluated EPA's progress in responding to three recommendations from the *120 Day Study*. Specifically, the study made several recommendations to determine if Resource Conservation and Recovery Act facilities were causing a burden on the Superfund program. We found that some of EPA's planned actions to address its study recommendations were different than the actions recommended. We recommend that EPA review a sample of the implemented study recommendations to confirm that the actions taken were complete and responsive to the original study recommendation(s). In October 2007, EPA proposed actions to address this recommendation. However, these actions were not responsive to the OIG's recommendation. In March 2008, OIG requested a meeting with EPA to discuss our recommendation and work to reach agreement on Agency actions to address it.

*Agency Explanation:* The Office of Solid Waste and Emergency Response's response to the final audit report and follow-up information requested by the OIG is currently being evaluated by the OIG. Unable to determine completion of OIG evaluation.

*OIG Follow-up Status:* Proposed response received awaiting final determination.

**Office of Water****Report No. 2007-P-00012, Assistance Agreements – State Revolving Fund Policy Review, March 28, 2007**

*Summary:* EPA regulations and policies allowing States to use bonds repaid from State Revolving Fund interest to meet State Revolving Fund match requirements are resulting in fewer dollars being available for water projects. Twenty States have used the Clean Water State Revolving Fund to repay bonds issued to meet the required fund match, and 16 of those States also did so for the Drinking Water State Revolving Fund. Current practices have resulted in an estimated \$937 million less available for loans since the inception of the State Revolving Fund programs.

*Agency Explanation:* The Office of Water remains in disagreement with OIG's recommendation relating to the State Revolving Fund bond issue. As of August 18, 2007, Office of Water has been waiting on OIG's formal decision as to whether this matter will be referred to the Audit Resolution Board to be resolved. Office of Water sent an e-mail on September 23, 2008, to the OIG; waiting for response.

*OIG Follow-up Status:* Resolution under negotiation in Headquarters.

**Region 1 - Regional Administrator****Report No. 2006-3-00203, Indian Township Tribal Government, FY 2002, September 18, 2006**

*Summary:* OMB Circular A-133, Compliance Supplement, requires that all federal funds in tribal custody are to be invested in only securities of the Federal Government, but the Tribe invested in non-governmental investments. OMB Circular A-133, Compliance Supplement, requires that all recipients of federal funds have written policies and procedures, but the recipient has virtually no written investment policies and procedures. The Tribe did not have an adequate accounting system to record, process, and summarize accounting transactions. The Tribe continually posted transactions and adjusted its internal financial statements for periods up to a year after the fiscal year had closed. The Tribe maintained numerous bank accounts within its internal accounting system, which had not been timely reconciled. The Tribe had a chronic problem of late financial statement audits and had been recently as far as 2 years behind in submission of audit reports. The Tribe maintained manual general ledger and bookkeeping systems decentralized from the Tribe books. While testing transactions for federal programs, specifically environmental, supporting receipts were not attached and could not be found for payments of various transactions by the Tribe.

*Agency Explanation:* Resolution on hold by OIG.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2006-3-00204, Indian Township Tribal Government, FY 2003, September 18, 2006**

*Summary:* All of the conditions noted in the FY 2002 audit (Report No. 2006-3-00203) continued to exist in FY 2003 and thus represent repeat findings. Also, tribal and federal program requirements over fiscal spending require approved budgets. For the year audited, the Tribe exceeded various budget line items for tribal government. This was due largely in part with the Tribe reorganizing its operating budget. Further, the Tribe has numerous bank accounts with financial institutions, but approximately \$557,000 was uninsured or uncollateralized cash as of September 30, 2003.

*Agency Explanation:* Resolution on hold by OIG.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Report No. 2006-3-00205, Indian Township Tribal Government, FY 2004, September 19, 2006**

*Summary:* All of the conditions noted in the FY 2003 audit (Report No. 2006-3-00204) continued to exist in FY 2004 and thus represent repeat findings. Many of those conditions were also noted in the FY 2002 audit (Report No. 2006-3-00203) and those have been repeat findings for 2 years. Also, the Tribe did not timely submit quarterly federal reports for September 30, 2004.

*Agency Explanation:* Resolution on hold by OIG.

*OIG Follow-up Status:* Resolution pending receipt of additional information.

**Region 2 - Office of Policy and Management****Report No. 2007-3-00139, New York, State of - FY 2006, July 26, 2007**

*Summary:* The Department of Environmental Conservation did not issue a formal management decision on the audit finding contained in the single audit report for the New York Environmental Facilities Corporation within the required 6-month time frame.

*Agency Explanation:* The grantee needs to address one minor issue on the plan for this finding. Region 2 awaits the grantee's written confirmation of its plan. Once that plan is received, the audit resolution will be issued, estimated to be by December 31, 2008.

*OIG Follow-up Status:* No response.

**Region 8 - Regional Administrator****Report No. 2007-3-00003, Blackfeet Tribe of the Blackfeet Indian Reservation, FY 2004, October 2, 2006**

*Summary:* The fixed asset records did not support the amounts reported on the financial statements. The auditor noted that salary advances were increasing substantially each year, and the Tribe was not enforcing the policies and procedures on the use of advances, and repayments of advances, and is not approving all advances before payment is made. There was a severe deficiency noted during internal control testing – time cards were being accepted without employee signatures or the supervisor's signature for authorization of work done during the time period, W-4's were missing, and current pay rates did not agree with the personnel file. A physical inventory of the Tribe's assets had not been taken and reconciled with underlying property records and the general ledger. The Tribe did not have the resources available to fund the deferred revenue amount reported on the statement of net assets. Six purchases did not have supporting documentation. The total amount of transactions not in compliance was \$6,596. The Tribe loaned and expended a portion of the Tribal Worker's Compensation Program reserves.

*Agency Explanation:* The Agency is obtaining additional information from the Tribe's Environmental Office, Finance Office, Treasurer's Office, and Human Resources Office, and will work out a corrective action plan specific to EPA-related programs, with emphasis on (1) reconciliations with the tribal accounting system, (2) improvements in the payroll system, (3) proper procurement and cost allocation of equipment, and (4) improvements in the disbursement and accounting for travel related costs. The need for improved internal controls and adherence to OMB Circular A-87 and Title 40 Code of Federal Regulations Part 31 were noted. Expected resolution of questioned costs by October 31, 2008. Expected resolution of EPA specific corrective action plan by December 31, 2008.

*OIG Follow-up Status:* No response.

**Report No. 2007-4-00078, Assistance Agreement - Cheyenne River Sioux Tribe, September 24, 2007**

*Summary:* The Tribe did not comply with the financial and program management standards under Title 40 Code of Federal Regulations Parts 31 and 35, and OMB Circular A-87. We questioned \$3,101,827 of the \$3,736,560 outlays reported. The Tribe's internal controls were not sufficient to ensure that outlays reported complied with federal cost principles, regulations, and grant conditions. In some instances, the Tribe also was not able to demonstrate that it has completed all work under the agreements and has achieved the intended results of the agreements.

*Agency Explanation:* The Agency is actively working with Tribe to correct issues identified by the OIG. While the cost standards were not fully met, the Agency believes most of the costs questioned are fair and reasonable charges to the grants and were used to support work completed. The Agency is working with the Tribe to help them implement improved administrative systems and related controls. The Agency plans on providing the OIG with its proposal for resolution by October 31, 2008.

*OIG Follow-up Status:* No response.

**Report No. 08-3-0019, Chippewa Cree Tribe FY 2005, October 25, 2007**

*Summary:* The auditor noted that certain general ledger accounts had not been adjusted to supporting documentation. Account balances requiring audit scrutiny and adjustments included grants receivable, deferred revenue, capital assets, interfund payables and receivables, long-term debt, transfers, and fund balances. These accounts were reconciled and adjusted during the course of the audit. This is a repeat finding from the prior year. Also, the Tribe's detailed capital asset records were not reconciled to the general ledger on a timely basis, but were reconciled in preparation for the audit. A partial inventory was performed in 2005, however, it was not reconciled to the amounts reported in the general ledger. Further, the auditor noted an unusually large number of accounting adjustments recorded in the general ledger. A significant number of these were recorded by the Tribe's accounting consultants. Adequate supporting documentation for many of the adjusting entries could not be located. Although rationale for the adjustments could be deduced, it was difficult to verify that they had been accurately prepared and properly authorized by responsible officers of the Tribe. In addition, the Tribe's self-insurance fund for workers' compensation and unemployment has accumulated a significant reserve balance of \$2,367,979, because collected premiums, based on State of Montana workers compensation fund rates have consistently exceeded the Tribe's actual claims expenses. As a result, the Tribe may have overcharged federal programs for workers compensation insurance premiums.

*Agency Explanation:* The Agency received the Tribe's Corrective Action Plan for the audit findings in this and subsequent audits along with a progress update on September 23, 2008. Continued progress on action items is needed. The Agency plans on visiting the Tribe during the first quarter of FY 2009 to evaluate the progress related to

EPA-funded programs, and work with the Tribe to develop an EPA-specific corrective action plan where needed. Progress on action items will be monitored until the Tribe demonstrates implementation and continued adherence to corrections. Expect resolution by June 30, 2009.

*OIG Follow-up Status:* No response.

**Report No. 08-3-0109, Chippewa Cree Tribe FY 2006, March 20, 2008**

*Summary:* The Tribe's self-insurance fund for workers' compensation and unemployment has accumulated a significant reserve balance of \$2,736,231, which is equivalent to over 2.9 years of annualized historical self-insurance expenses, based on 2005 and 2006 data. By collecting premiums in excess of actual claims, the Tribe may be overcharging federal programs for these premiums. This is a repeat finding from the prior year. The auditor was unable to obtain any evidence that the Tribe performed procedures to verify that contracts or sub-awards were made only to parties that were not suspended or debarred.

*Agency Explanation:* The Agency received the Tribe's Corrective Action Plan for the audit findings in this and subsequent audits along with a progress update on September 23, 2008. Continued progress on action items is needed. The Agency plans on visiting the Tribe during the first quarter of FY 2009 to evaluate progress as it relates to EPA-funded programs, and to work with the Tribe to develop an EPA-specific corrective action plan where needed. Progress on action items will be monitored until the Tribe demonstrates implementation and continued adherence to corrections. The Agency also hopes to get involved with the Tribe's cognizant agency to develop a coordinated plan to help the Tribe overcome these issues on a tribal-wide basis to reduce the likelihood of these findings in the future. Resolution expected by June 30, 2009.

*OIG Follow-up Status:* No response.

**Report No. 08-3-0112, Wyoming, University of - FY 2006, March 20, 2008**

*Summary:* The auditor noted that performance or special reports specified by the grant agreement were not submitted. For EPA's grant the mid-year progress report was not filed because the principal investigator was unaware of the grant requirement.

*Agency Explanation:* Due to regional audit priority work, the documentation for this audit was not sent to the OIG timely. Audit resolution expected October 2008.

*OIG Follow-up Status:* No response.

**Report No. 08-3-0111, Blackfeet Tribe of the Blackfeet Indian Reservation - FY 2005, March 20, 2008**

*Summary:* During the audit, the Tribe made vigilant attempts to take a physical inventory of fixed assets, but it was not adequately completed and reconciled with underlying property records and the general ledger. During the year, the Tribe loaned and expended a portion of the program's reserves in violation of program policies, as funds were loaned to other programs without repayment terms or interest. Also, the Tribe has significantly depleted the funds in the Worker's Compensation Program to the extent that funding may not be available in sufficient amounts to cover future claims. During the test of controls for payroll, the auditor noted that estimates are used to charge salaries to multiple programs. Quarterly reconciliations of actual hours worked are not being performed. A review of time cards for the employees charged to multiple programs indicated that not enough information was being documented to determine the hours worked by its employees. Of 55 EPA samples reviewed (for grant number BG-988853205: *Performance Partnership Grant*), 4 were noncompliant for travel expenses. The noncompliant samples did include a trip summary report by the participant to substantiate their travel or receipts to substantiate incurred expenses related to travel. The auditor questioned \$1,554.

*Agency Explanation:* The Agency conducted an onsite visit to the Tribe in September 2008. The Tribe has not yet completed significant portions of its corrective action plans to address findings from the FY 2004 and FY 2005 Single Audits. The Agency will work with the Tribe to prepare an EPA-specific corrective action plan and monitor progress until the Tribe demonstrates ongoing implementation of action items. The Agency will seek to work with the federal cognizant agency (Department of Health and Human Services) to assist in the implementation of the tribal-wide corrective action plan. Issues regarding the workman's compensation plan and equipment records are tribal-wide issues that will need tribal-wide measures to be taken. The Agency is awaiting documentation supporting the questioned costs. If documentation is not received reimbursement will be sought. The Environmental Director, the Payroll Department, and the Finance Director have agreed to begin using appropriate timesheets that allow for

tracking of work activities and programs; to ensure that time is charged to the appropriate programs based on work performed and documented on the timesheets; and, for staff working solely on one program, to have employees and supervisors sign certifications stating that the employee is working 100 percent on one program. The Agency will continue to monitor the progress towards addressing the issues identified until the Tribe has demonstrated adequate implementation and continued use of the corrective measures and controls. Resolution expected by June 30, 2009.

*OIG Follow-up Status:* No response.

**Report No. 08-3-0113, Lower Brule Sioux Tribe - FY 2006, March 24, 2008**

*Summary:* The September 30, 2005, audited financial statements of the Tribe were not filed within the time period required by OMB Circular A-133.

*Agency Explanation:* The Agency first met the Tribe's new Controller in November 2007, at an Indirect Cost Training the Agency participated in with the Indian Health Service. At that time, the Controller noted a number of actions being taken to help get the audit back on track. It should be noted that the Lower Brule Sioux Tribe has been designated as a high risk grantee and EPA reviews financial support for requests before disbursements are made; the Agency therefore believes EPA funds are being used for the intended purpose. The Agency will be following up with an onsite visit to the Tribe in October 2008 to gauge current year progress. Expect resolution by October 31, 2008.

*OIG Follow-up Status:* No response.

**Total reports issued before reporting period for which  
no management decision has been made as of September 30, 2008 = 48**

## Appendix 3 - Reports with Corrective Action Not Completed

In compliance with reporting requirements in the Inspector General Act, Section 5(a)(3), “Identification of Reports Containing Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed,” and to help EPA managers gain greater awareness of outstanding commitments for action, we have developed a “Compendium of Unimplemented Recommendations.” This separate document provides the information required in Appendix 3 to this Semiannual Report to Congress. This compendium (available upon request or at <http://www.epa.gov/oig/reports/2009/20081031-09-P-0014.pdf>) will be produced semiannually for Agency leadership and Congress based upon Agency reports on the status of action taken on OIG recommendations and OIG selective verification of that reported status.

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