

Office of Inspector General Semiannual Report to the Congress

October 1, 1997 through
March 31, 1998

INSPECTOR GENERAL VISION STATEMENT

“We are agents of positive change striving for continuous improvement in our Agency’s management and program operations, and in our own offices.”

MISSION

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) prevent and detect fraud and abuse in Agency programs and operations; and (3) fully and currently inform the Administrator and the Congress about problems and deficiencies identified by the Office of Inspector General relating to the administration of Agency programs and operations.

GOALS

- ① Help EPA achieve its environmental goals by improving the performance and integrity of EPA programs and operations, by safeguarding and protecting the Agency’s resources, and by clearly reporting the results of our work.
- ② Foster strong working relationships.
- ③ Operate at the highest performance level.

Foreword

I am very pleased to report that EPA received an unqualified or “clean” audit opinion on its Agency-wide financial statements. This achievement represents a significant milestone in EPA’s ongoing initiatives to improve its financial management systems and activities. This could not have happened without the dedication, cooperation and hard work of many individuals from the Office of the Chief Financial Officer, other program offices throughout Headquarters and the regions, and my office. Much still needs to be done by the Agency in many areas, such as cost accounting and Year 2000 enhancements. Some of the issues will present new challenges in upcoming financial statement audits. Our sustained efforts will allow managers to better direct, monitor and report on the use of Agency resources to achieve its environmental mission.

Concerning our impact on environmental results, we have made significant progress in conducting program audits which have the potential to improve the effectiveness and efficiency of environmental programs. For example, we reported that the backlog of permits for municipal and industrial wastewater dischargers in Alaska and Idaho are undermining the permit program which is key to an effective clean water program. Seventy percent of these permits were over 4 years overdue, and some of the dischargers were contributing to water quality problems in important watersheds. In addition, we completed two more reviews of state air enforcement programs in New Mexico and Washington. These states needed to better identify and report significant violators so that EPA working in partnership with state and local air districts can take the necessary actions to bring violating facilities back into compliance.

Our audits have also identified opportunities where scarce resources could have been used more effectively. In Philadelphia, EPA spent over four times the appraised value of houses demolished at a Superfund site to build new houses for the owners. This decision cost EPA millions of additional dollars which could have otherwise been spent on environmental cleanup. In an audit of lead and asbestos training grants, we found that under one grant, the per student cost of training was \$2,807 rather than the estimated amount of \$267. Funds could have been saved or put to better use if EPA had monitored these training grants more closely.

Our investigative work continues to result in substantial fraud recovery. An EPA contractor recently entered into a civil settlement to resolve fraud allegations under the Federal False Claims Act. A joint investigation by the EPA OIG, the Defense Criminal Investigative Service, the Defense Contract Audit Agency, and the U.S. Army Criminal Investigation Command uncovered allegations that the contractor had submitted false claims by double charging for certain labor and equipment costs utilizing a complex accounting scheme. Consequently, the contractor agreed to pay \$4.3 million to the

United States as part of a global resolution of all claims under a landfill cleanup contract. Of over \$24 million in submitted but unpaid claims, only \$14.5 million are deemed as legitimately incurred by the contractor. Therefore, an additional \$9.6 million in cost savings has been realized from the repudiated claims.

As evidenced by the success of our efforts in these and other areas, the Office of Inspector General remains committed to assisting the Agency in the accomplishment of its environmental goals.

Nikki L. Tinsley
Acting Inspector General

Profile of Activities and Results

October 1, 1997 to March 31, 1998

Audit Operations (\$ in millions) OIG Managed Reviews: Reviews Performed by EPA, Independent Public Accountants and State Auditors	Audit Operations (\$ in millions) Other Reviews: Reviews Performed by Another Federal Agency or Single Audit Act Auditors
<p>Questioned Costs *</p> <p>- Total \$ 6.9</p> <p>- Federal \$ 4.8</p> <p>Recommended Efficiencies*</p> <p>- Federal \$ 0</p> <p>Costs Disallowed to be Recovered</p> <p>- Federal \$14.5</p> <p>Costs Disallowed as Cost Efficiency</p> <p>- Federal \$ 0</p> <p>Reports Issued - OIG Managed Reviews:</p> <p>- EPA Reviews Performed By OIG: 47</p> <p>- EPA Reviews Performed by Independent Public Accountants: 5</p> <p>- EPA Reviews Performed by State Auditors: 0</p> <p>Total 52</p> <p>Reports Resolved (Agreement by Agency officials to take satisfactory corrective action.) *** 124</p>	<p>Questioned Costs *</p> <p>- Total \$ 0.1</p> <p>- Federal \$ 0.1</p> <p>Recommended Efficiencies*</p> <p>- Federal \$ 0</p> <p>Costs Disallowed to be Recovered</p> <p>- Federal \$ 0</p> <p>Costs Disallowed as Cost Efficiency</p> <p>- Federal \$ 0</p> <p>Reports Issued - Other Reviews:</p> <p>- EPA Reviews Performed by Another Federal Agency: 65</p> <p>- Single Audit Act Reviews: 33</p> <p>Total 98</p> <p>Agency Recoveries - Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments.)** \$6.5</p>
<p align="center">Investigative Operations</p>	<p align="center">Fraud Detection and Prevention Operations</p>
<p>Fines and Recoveries (including civil) \$ 4.9</p> <p>Savings/Repudiated Claims \$ 9.6</p> <p>Investigations Opened 90</p> <p>Investigations Closed 42</p> <p>Indictments of Persons or Firms 6</p>	<p>Hotline Cases Opened 19</p> <p>Hotline Cases Processed and Closed 17</p> <p>Personnel Security Investigations Adjudicated 433</p> <p>Legislative and Regulatory Items Reviewed 27</p>

Investigative Operations	Fraud Detection and Prevention Operations
Convictions of Persons or Firms	5
Administrative Actions Against EPA Employees/ Firms	25
Civil Recoveries	3

* Questioned Costs and Recommended Efficiencies subject to change pending further review in the audit resolution process.
 ** Information on recoveries from audit resolution is provided from EPA Financial Management Division and is unaudited.
 *** Reports resolved are subject to change pending further review.

Contents

Executive Summary	1
The OIG in EPA--Its Role and Authority	4
Purpose and Reporting Requirements of the Office of Inspector General Semiannual Report	4
Who's Who in the Office of Inspector General	5
 Section 1--Office of Audit--Significant Findings	
Programs	7
Financial Statements	22
Assistance Agreements	25
Contracts	34
 Section 2--Office of Investigations--Significant Results	
Summary of Investigative Results	39
Selected Prosecutive Actions	40
Civil and Administrative Actions to Recover EPA Funds	45
Selected Suspension and Debarment Actions	48
 Section 3--Fraud Prevention and Management Improvements	
Advisory and Assistance Services	50
Review of Legislation and Regulations	51
OIG Management Initiatives	53
Management Decisions with Which the Inspector General is in Disagreement	54
 Section 4--Report Resolution	
Status Report on Perpetual Inventory of Reports in Resolution Process for the Semiannual Period Ending March 31, 1998	55
Status of Management Decisions on IG Reports	56
Inspector General Issued Reports With Questioned Costs	56

Inspector General Issued Reports With Recommendations that Funds Be
Put to Better Use 57

Appendices

Appendix 1--Reports Issued 58
Appendix 2--Summary of Reports Issued Without Management Decision 63
Appendix 3--Major Laws Administered by EPA 64

The complete text of selected audits is available through the EPA OIG internet home page. <http://www.epa.gov/oigearth>

Executive Summary

Section 1--Office of Audit-- Significant Findings

1. Region 10's NPDES Permit Program Needs Improvement to Protect Water Quality in Alaska and Idaho

Region 10 could more effectively regulate and reduce point source water pollution by improving its wastewater permit program's process for issuing and renewing permits, monitoring compliance of dischargers, enforcing compliance for dischargers that violated permit conditions, and reporting on new permit limits and conditions (page 7).

2. EPA Paid Excessive Amounts to Build Replacement Housing

At a Superfund site where EPA had to demolish homes to clean up radiological contamination, EPA spent over four times the average appraised value to custom build replacement houses (page 8).

3. EPA's Air Program, While Effective in Cleaning the Air, Could Be More Efficient

EPA data show that the Air Program has been effective in cleaning the air and reducing the potential for depleting the ozone layer. To increase the Air Program's efficiency, however, EPA can improve its relations with other parties it needs to carry out its mission, and increase attention to certain ongoing activities (page 10).

4. Missouri's Water Quality Standards and Monitoring Could Be Improved

Missouri needed to improve its water quality standards by adopting national use classifications for its waters and criteria for acceptable pollutant levels. Missouri also needed to comprehensively monitor and accurately report on its water quality (page 12).

5. Region 10 and the State of Washington Need to Improve the Reporting of Significant Clean Air Act Violators

Washington was under-reporting major air stationary source significant violators to EPA. Although Region 10 did not take planned corrective actions, the Region did take other actions to increase the accuracy of reporting by the State. Washington also was not conducting the thorough type of inspections necessary to identify significant violators. Region 10 had not implemented an effective oversight program to ensure that adequate inspections were performed (page 14).

6. Region 8 Needs to Strengthen Its Superfund Field Sampling Quality Assurance Controls

Region 8 improved some of its field sampling quality assurance activities since a 1995 OIG audit. However, the Region could more effectively support its goal for high quality environmental data by better applying its data quality objectives process to support environmental cleanup decisions, documenting project plan approvals and ensuring timeliness of plan submissions, attending training, and performing and documenting oversight of field sampling (page 15).

7. New Mexico and Region 6 Did Not Identify and Ensure That Significant Violators Were Returned to Compliance

New Mexico and Region 6 needed to better identify and report significant violators of the Clean Air Act. New Mexico did not establish goals to complete inspections of major stationary air pollution facilities, and did not establish time frames for returning facilities to compliance. Over one-third of New Mexico's major facilities had not been inspected in more than seven years (page 16).

8. Kansas NPDES Permit Program Needs Attention

When Kansas issued wastewater permits, it established pollutant limits and monitoring requirements in accordance with EPA regulations. However, Kansas did not reissue expired permits in a timely manner, and did not submit expired permits to Region 7. This limited Region 7's options to ensure the permit program controlled discharges into Kansas waters. As a result, the permittees were allowed to discharge pollutants at levels that could adversely affect human health and aquatic life (page 17).

9. EPA Accurately Reports Information on Superfund Construction Completions

Congress and the public can rely on the accuracy of EPA's Superfund construction completion statistics. While it generally accurately communicates the statistics, EPA has at times portrayed sites where construction was complete as if all cleanup work was done and the sites could be returned to economic use. This was not always the case, and such statements could lead to misunderstandings on the status of the cleanup of Superfund sites (page 19).

10. EPA Security Plans Vulnerable to Threats

Some EPA organizations did not have a general support system security plan, a disaster recovery plan, or require contractors who manage EPA information systems to undergo criminal and financial background checks. These conditions leave critical EPA systems vulnerable to natural and internal threats (page 20).

11. EPA Receives Unqualified Opinion on Its Consolidated Financial Statements

During fiscal 1997, EPA continued to improve its financial reporting systems and practices. As a result of working jointly with the OIG to improve the accuracy and reliability of its financial statements, EPA received an unqualified or "clean" opinion on its fiscal 1997 Consolidated Agency-wide financial statements (page 22).

12. The National Rural Water Association (NRWA) Used Federal Funds to Lobby and Awarded Contracts Noncompetitively

NRWA charged lobbying costs to the federal government, charged costs associated with directing state associations' lobbying to the federal government, and used an EPA employee on an Intergovernmental Personnel Act assignment to NRWA to further its lobbying agenda. EPA allowed NRWA to award federally-funded contracts noncompetitively to state associations without adequate justification since 1976 (page 25).

13. EPA's Brownfields Initiative Can Be Strengthened

EPA can strengthen the Brownsfields Initiative by improving the focus and direction provided to pilot cities, strengthening quality assurance at Brownfields sites, and exploring alternatives to the restrictions placed on the use of Brownfields revolving loan funds (page 27).

14. Lead and Asbestos Training Costs Were Understated and Inadequately Monitored

EPA miscoded 21 of 34 lead and asbestos training grants. As a result, EPA did not know how much it had spent on training. Moreover, it was not clear whether EPA even had the authority to award these grants. EPA did not monitor how many students were being trained or how much it cost to train each student (page 28).

15. Region 2 Can Improve Closeout of Construction Grants

Region 2 did not effectively review construction grants to determine the viability of unexpended grant obligations or promptly deobligate unneeded funds. As a result, EPA accumulated idle funds of more than \$70 million for the projects reviewed which could have been used to fund other priority projects, or been deposited into the State Revolving Fund (page 30).

16. Almost \$3 million Questioned on Township of Parsippany-Troy Hills, New Jersey Projects

The Township of Parsippany-Troy Hills, New Jersey claimed \$2,945,348 of ineligible or unsupported construction, engineering and administrative costs for the expansion of a secondary wastewater treatment facility and construction of an interceptor sewer (page 32).

17. Over \$1.2 Million Questioned on Government of District of Columbia Projects

The District of Columbia claimed \$1,208,051 of ineligible or unsupported construction, engineering and administrative costs for its share of a joint project to construct wastewater treatment facilities (page 33).

18. EPA Needs to Address Procurement Issues Related to OSV Peter Anderson Contract

The recompetete contract for the operation and maintenance of EPA's Ocean Survey Vessel (OSV) Peter Anderson should be awarded as a fixed-priced, performance-based service contract, not a level-of-effort cost-reimbursable contract as currently planned. Also, EPA needs to address personal service issues, performance of work outside the scope of the contract, and improper use of contract employees (page 34).

Section 2--Office of Investigations--Significant Results

During this semiannual reporting period, our investigative efforts resulted in five convictions and six indictments. Also, our investigative work led to over \$4.9 million in fines and recoveries and \$9.6 million in savings fines repudicated claims (page 39).

The Office of Grants and Debarment completed action on 7 OIG-generated suspension and debarment cases during this reporting period, resulting in four suspension and debarments and two voluntary exclusions (page 48).

Section 3--Fraud Prevention and Management Improvements

During this semiannual period, we reviewed five legislative and 22 regulatory items. Our most significant comments concerned the Government Performance and Results Act Technical Amendments of 1997; Government Waste, Fraud and Error Reduction Act of 1998; General

Section 4--Report Resolution

This section, required by the IG Act, reports on the status and results of Agency management actions to resolve audit reports. At the beginning of the semiannual period, there were 177 reports for which no management decision had been made. During the first half of fiscal 1998, the Office of Inspector General issued 150 new reports and closed 202. At the end of the reporting period, 125 reports remained in the Agency followup system for which no management decision had been made. Of the 125 reports, 82 reports remained in the Agency followup system for which no management decision had been made within 6 months of issuance (page 55).

For the 124 reports closed that required agency action, EPA management disallowed \$14.5 million of questioned costs and agreed with our recommendations that \$10,000 be put to better use (page 55). In addition, cost recoveries in current and prior periods included \$1 million in cash collections, and at least \$5.5 million in offsets against billings.

The OIG in EPA--Its Role And Authority

The Inspector General Act of 1978 (Public Law 95-452), as amended, created Offices of Inspector General to consolidate existing investigative and audit resources in independent organizations headed by Inspectors General.

EPA established its Office of Inspector General (OIG) in January 1980. As an agency with a massive public works budget, EPA is vulnerable to various kinds of financial abuses. The OIG's role is to review EPA's financial transactions, program operations, contracts, and administrative activities; investigate allegations or evidence of possible criminal and civil violations; and promote economic, efficient, and effective Agency operations. The OIG is also responsible for reviewing EPA regulations and legislation.

The EPA Inspector General reports directly to the Administrator and the Congress and has the authority to:

- ! *Initiate and carry out independent and objective audits and investigations,*
- ! *Issue subpoenas for evidence and information,*
- ! *Obtain access to any materials in the Agency,*
- ! *Report serious or flagrant problems to Congress,*
- ! *Select and appoint OIG employees,*
- ! *Fill Senior Executive Service positions,*
- ! *Administer oaths, and*
- ! *Enter into contracts.*

The Inspector General is appointed by, and can be removed only by, the President. This independence protects the OIG from interference by Agency management and allows it to function as the Agency's fiscal and operational watchdog.

Organization and Resources

The Office of Inspector General functions through two major offices, each headed by an Assistant Inspector General: Office of Audit and Office of Investigations. Nationally, there are nine Divisional Inspectors General for Audit and four Divisional Inspectors General for Investigations who direct staffs of auditors and investigators and who report to the appropriate Assistant Inspector General in Headquarters.

For fiscal 1998, the Agency was appropriated \$7.4 billion and authorized 18,283 full time equivalent (FTE) positions to conduct the environmental programs authorized by Congress to restore and protect the environment. As a separate appropriation account, the Office of Inspector General (OIG) received \$40.1 million to carry out the provisions of the Inspector General Act of 1978, as amended. Of the OIG's total appropriation, \$10.2 million was derived from the Hazardous Substance Superfund trust fund. The OIG had an authorized staffing level of 372 FTE positions.

Purpose and Reporting Requirements of the Office of Inspector General Semiannual Report

The Inspector General Act of 1978, as amended, requires the Inspector General to keep the Administrator and Congress fully and currently informed of problems and deficiencies in the Agency's operations and to recommend corrective action. The IG Act further specifies that semiannual reports will be provided to

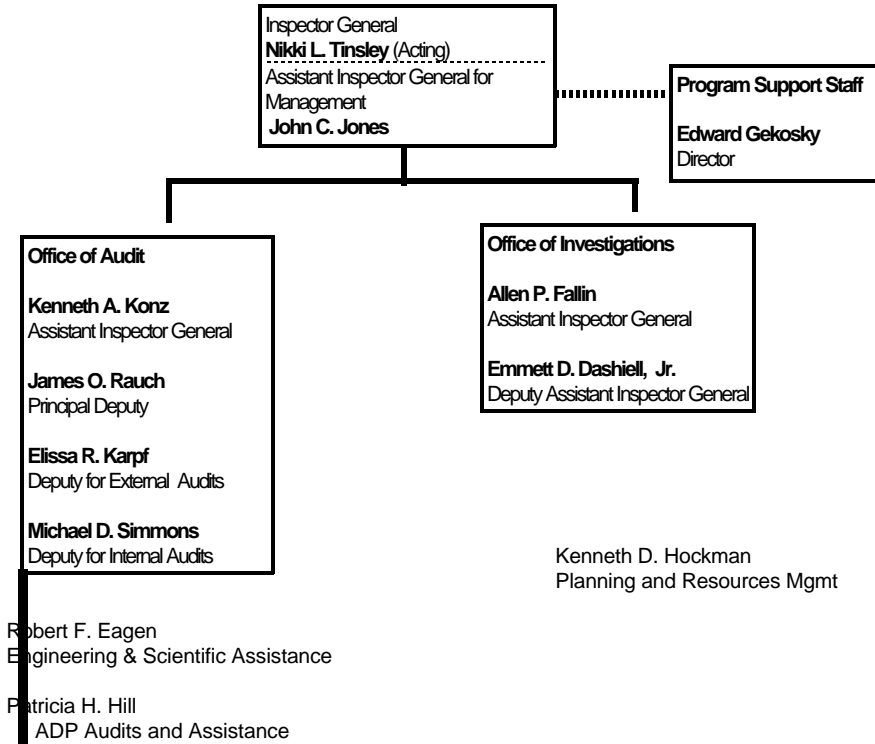
the Administrator by each April 30 and October 31, and to Congress 30 days later. The Administrator may transmit comments to Congress along with the report, but may not change any part of it.

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended, are listed below.

Source		Section/Page
Inspector General Act, as amended.		
Section 4(a)(2)	Review of Legislation and Regulations	3 51
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	1 7
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	1 7
Section 5(a)(3)	Prior Significant Recommendations on Which Corrective Action Has Not Been Completed	Appendix 2 63
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	2 40
Section 5(a)(5)	Summary of Instances Where Information Was Refused	*
Section 5(a)(6)	List of Audit Reports	Appendix 1 58
Section 5(a)(7)	Summary of Significant Reports	1 7
Section 5(a)(8)	Statistical Table 1-Reports With Questioned Costs	4 56
Section 5(a)(9)	Statistical Table 2-Reports With Recommendations That Funds Be Put To Better Use	4 57
Section 5(a)(10)	Summary of Previous Audit Reports Without Management Decisions	Appendix 2 63
Section 5(a)(11)	Description and Explanation of Revised Management Decisions	Appendix 2 63
Section 5(a)(12)	Management Decisions with Which the Inspector General Is in Disagreement	3** 54
* <i>There were no instances where information or assistance requested by the Inspector General was refused during this reporting period.</i>		
** <i>We are in disagreement with the Audit Resolution Board. See page 54 for details.</i>		

Office of Inspector General--Who's Who

Headquarters



Divisional Inspectors General for Audit

Divisional Inspectors General for Investigations

Regions 1 & 2
Paul D. McKechnie

Regions 1, 2 & 3
Thomas L. Papineau

Region 3
Carl A. Jannetti

Regions 4,5,6 & 7
Ailverdes Cornelious

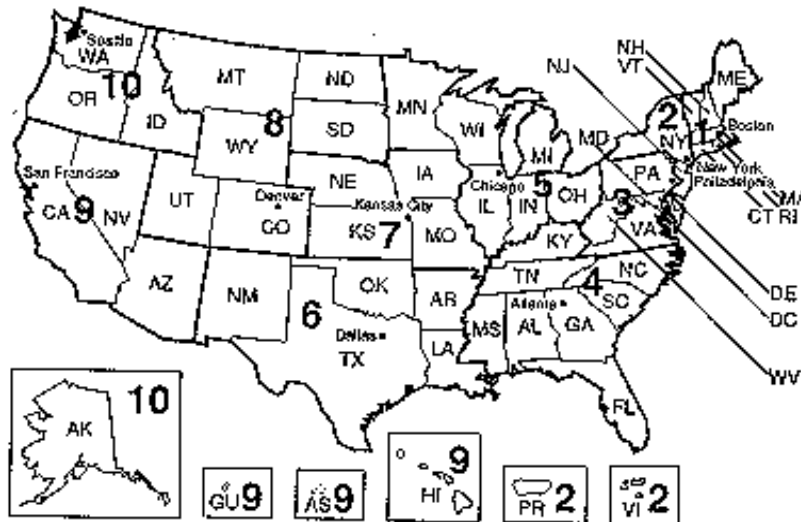
Regions 4
Mary M. Boyer

Regions 8,9 & 10
Mark Vallerga

Region 5
Anthony C. Carrollo

Washington Field Division
David Sermos

Regions 6, 7 & 8
Bennie S. Salem



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Norman Roth
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