

Office of Inspector General Semiannual Report to the Congress

October 1, 1999 through
March 31, 2000

Foreword

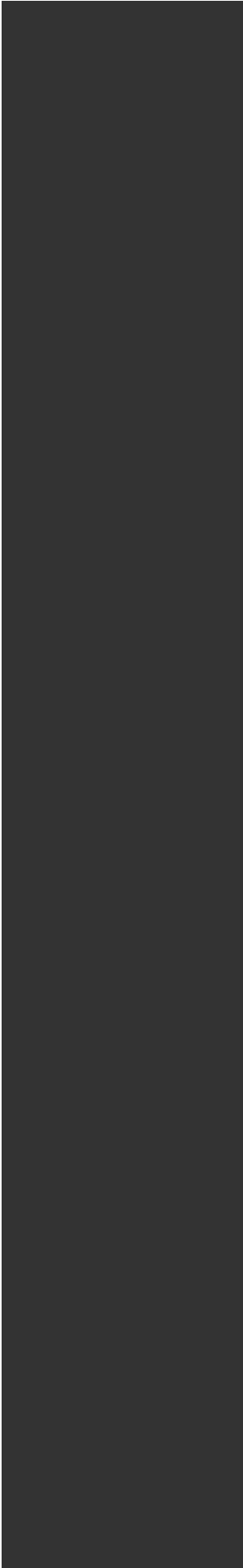
During this semiannual period the Office of Inspector General (OIG) continued to work with the Agency to address the key management challenges we have identified through our audit efforts. This year we added four new areas to the Agency's Top Ten Management Challenges list: (1) improving the quality of laboratory data; (2) improving the Agency's process for preparing the financial statements; (3) addressing the growing backlog of five-year reviews; and (4) the slow progress made in restoring and maintaining the integrity of the Great Lakes basin. We believe these and previously identified areas need to be addressed in a timely manner so EPA can continue to accomplish its environmental mission and achieve effective management. OIG staff are committed to working collaboratively with EPA and our external stakeholders to view environmental and management challenges as opportunities for win-win solutions.

We have made progress in establishing an Office of Program Evaluation within the OIG. The office will lead the design and implementation of program evaluations, report to the Agency and Congress on the findings of those evaluations, conduct research on methodology that can be used for evaluating EPA's programs, and coordinate program evaluation activities within the OIG.

As part of our continuing efforts to improve our own performance, we conducted an office-wide, intensive "Theory of Business" training program. This training provided our staff information on business processes and emphasized leadership, partnering, strategic planning, customer and marketing approaches, best practices case studies, important internal process improvements, and business results.

This report summarizes some of our most significant audits and investigations during the six-month period:

- EPA does not have an effective biosolids program for ensuring safe land application. While EPA promotes land application, EPA cannot assure the public that current land application practices are protective of human health and the environment.
- EPA did not submit timely and complete financial statements resulting in a qualified opinion. Although EPA improved its financial statement preparation process for FY 1999, EPA financial statements contained significant errors and lacked accounting support.
- EPA improved its implementation of the Whistleblower Protection Act. We found no indications that EPA failed to protect whistleblowers rights.
- The City of Cleveland settled a civil lawsuit charging that the City's Air Pollution Control Program improperly spent more than \$429,000 in grant funds awarded by EPA. An amended complaint was filed by the United States alleging that several of the City's Bureau of Pollution Control employees spent only part or none of their time on air pollution prevention activities.



- A former executive director of the North Ohio Valley Air Authority (NOVAA) pleaded guilty to charges of accepting an unlawful gratuity as a public official and conspiracy to defraud the government. NOVAA received Federal funds from EPA through the Ohio Environmental Protection Agency.

As we begin the new millennium, the OIG remains dedicated to :
1) improving environmental quality and public health; 2) improving EPA's management and program operations; and 3) producing timely, quality, and cost effective products and services which meet our customers needs. I am confident that the partnership we have created with EPA will continue to result in mutual improvement and better environmental outcomes.

Nikki L. Tinsley
Inspector General

Profile of Activities and Results

October 1, 1999 to March 31, 2000

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
October 1, 1999 March 31, 2000	October 1, 1999 March 31, 2000
Questioned Costs * - Total \$49.4 - Federal 37.6	Questioned Costs * - Total \$ 3.4 - Federal 3.4
Recommended Efficiencies* - Federal 0	Recommended Efficiencies* - Federal \$0
Costs Disallowed to be Recovered - Federal \$14.9	Costs Disallowed to be Recovered - Federal \$0.5
Costs Disallowed as Cost Efficiency - Federal 0	Costs Disallowed as Cost Efficiency - Federal \$0
Reports Issued - OIG Managed Reviews: - EPA Reviews Performed By OIG: 27 - EPA Reviews Performed by - Independent Public Accountants: 0 - EPA Reviews Performed by State Auditors: 0	Reports Issued - Other Reviews: - EPA Reviews Performed by Another Federal Agency: 269 - Single Audit Act Reviews: 57
Total 27	Total 326
Reports Resolved (Agreement by Agency officials to take satisfactory corrective action.) *** 100	Agency Recoveries - Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments.)** \$4.1M

Investigative Operations	Fraud Detection and Prevention Operations
Fines and Recoveries (including civil) \$7.5M	
Investigations Opened 31	Hotline Cases Opened 50
Investigations Closed 42	Hotline Cases Processed and Closed 23
Indictments of Persons or Firms 17	Legislative and Regulatory Items Reviewed 32
Convictions of Persons or Firms 21	
Administrative Actions Against EPA Employees/ Firms 7	
Civil Judgments 4	

* 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.

Table of Contents

Section 1-Helping EPA Achieve Its Environmental Goals and Improve Its Programs

Program Audits and Investigations	1
Financial Management	11
Assistance Agreement Investigations	16
Contract Investigations	18
Hotline Activities	21

Section 2-Fostering Strong Working Relationships

Advisory and Assistance Service	22
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Section 3- Operating at The Highest Performance Level

OIG Awards	24
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Section 4-Audit Report Resolution and Summary of Investigative Results

Status Report on Perpetual Inventory of Reports in Resolution Process for the Semiannual Period Ending March 31, 2000	25
Status of Management Decisions on IG Reports	26
Inspector General Issued Reports With Questioned Costs	26
Inspector General Issued Reports With Recommendations that Funds Be Put to Better Use	27
Summary of Investigative Results	28

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

Section 1– Helping EPA Achieve Its Environmental Goals and Improve Its Programs
Program Audits and Investigations

EPA’s Biosolids Program Does Not Ensure Safe Land Application

Although EPA promotes land application of biosolids (treated sewage sludge) rather than landfilling or incineration, the Agency cannot assure the public that current land application practices are protective of human health and the environment. EPA performs few biosolids related inspections of publicly owned treatment work (POTW) operations, virtually no inspections of land application sites, and few records inspections at POTWs or land applicers. EPA regions do not maintain data on the cumulative amounts of pollutants at land application sites despite its own requirement to do so. The biosolids program has been delegated to only three states, and there is virtually no federal oversight of state biosolids programs in nondelegated states. Therefore, EPA does not have sufficient information to determine compliance levels with its own regulatory requirements. This almost complete absence of a federal presence results from the low priority given by EPA and the decision not to commit enforcement resources to biosolids. EPA has stated that it has committed its enforcement resources to priorities that have greater risks than biosolids.

Domestic sewage sludge is the solid, semi-solid, or liquid by-product generated during the treatment of wastewater at municipal wastewater treatment plants. These sewage treatment plants are referred to as POTWs. Biosolids refer to sewage sludge that has been treated and can be beneficially recycled. Sludge also includes domestic septage. If applied properly, biosolids help condition soil and provide a beneficial use of waste.

EPA is required by the Government Performance and Results Act to measure the results of its programs. EPA established a FY 1999 annual performance goal that 50% of biosolids be beneficially reused. However, EPA established this goal without defining beneficial reuse. Also, the goal was established without identifying the resources needed to achieve the goal, without clear guidance to the regions on what data to gather, and without describing verification and validation procedures. Consequently, EPA regions are measuring progress in different ways. Totaling these inconsistent measurements does not provide a meaningful picture of the national state of biosolids use and is not a useful decision making tool.

We recommended that the Assistant Administrators for OW and OECA provide, by the end of fiscal 2001, an analysis of whether the Agency’s proposed actions provide a sufficient basis for assessing compliance with its requirements and assuring the public of the protectiveness of land application practices. We also recommended that the Assistant Administrator for Water define beneficial reuse, allocate the resources necessary to determine progress toward the established goal, provide guidance to the regions concerning what data should be collected and where collected data should reside, and establish procedures to verify collected data.

*Oversight Of
Hanford's Tank
Waste Remediation
System (TWRS)
Program Needs
Significant
Improvement*

Agency Action

We issued the final report (2000-P-10) to the Assistant Administrators for Water and OECA on March 20, 2000. In response to the draft report, both Assistant Administrators, citing budget constraints and relatively low environmental risk, declined to invest additional resources in the biosolids program. EPA plans to promote use of its new Biosolids Data Management System to store and monitor biosolids data, to improve communications between the regions and states, to maintain documentation of state activities for regulating and overseeing biosolids use, and to develop audit protocols for assessing compliance with biosolids regulations. A response to the final report is due June 19, 2000.

Progress with Hanford's Tank Waste Remediation System (TWRS) Program is not sufficient to ensure compliance with the Resource Conservation and Recovery Act (RCRA) and to protect human health and the environment. At least one million gallons of highly toxic and radioactive waste from 67 of Hanford's 149 single shell tanks (SSTs) has already leaked, and some of the waste has reached the groundwater. There are about 54 million gallons of high level radioactive waste stored in Hanford tanks. Continued delays in interim stabilization and in treatment and retrieval of the tank wastes could result in the use of both the SSTs and double shell tanks (DSTs) well beyond the established schedule. These delays could significantly increase the risks of releases into the environment and threaten human health.

In 1989, the State of Washington's Department of Ecology (Ecology), EPA Region 10, and the Department of Energy (DOE) signed an agreement and consent order requiring that DOE return its Hanford Federal Facility to compliance with RCRA and the State's Hazardous Waste Management Act. The agreement also designated Ecology as the lead regulatory agency for all Hanford SSTs and DSTs containing hazardous and highly radioactive waste. DOE established the TWRS program for Hanford to ensure that the tank waste is stored, treated, and immobilized in a safe, environmentally sound, and cost-effective manner.

Region 10 and Ecology have not developed an effective oversight and enforcement strategy. Ecology historically focused on negotiation to address agreement compliance issues rather than formal enforcement. With support of the Region, Ecology successfully resolved many issues through negotiation; however, additional enforcement actions are needed. Ecology did not perform a sufficient number of inspections even though seven of the eight inspections conducted during the prior seven year period identified serious compliance issues.

Although the 1989 agreement established major milestones for stabilizing SSTs, treating waste from SSTs and DSTs, and closing the SSTs, DOE has not complied with these milestones. Interim stabilization of the SSTs consistently have been missed and completion of interim stabilization will be delayed by nine years. The start of treatment of tank wastes will be delayed at least four years and the completion of treatment may be delayed up to 19 years. Retrieval of waste from, and the closure of, all SSTs may be delayed at least 15 years and nine years, respectively.

*Region 8 Needs to
Tighten Controls
Over Dial-up
Access*

We recommended that the Region 10 Administrator negotiate with Ecology to address oversight and enforcement responsibilities regarding DOE compliance with the agreement and RCRA requirements as part of the fiscal 2000/2001 performance partnership process; consult with EPA National Program Managers to determine what action can be taken at the EPA Headquarters to encourage DOE to assign a higher priority to cleanup the Hanford tanks; and report the weaknesses in the Hanford TWRS Program as a management control deficiency in the annual FMFIA assurance letter.

Agency Action

We issued the final report (2000-P-00012) to the Region 10 Regional Administrator on March 30, 2000. In a joint response to the draft report, the Region and Ecology concurred with both the report facts and recommendations. A response to the final report is due June 29, 2000.

EPA's Region 8 needs more security for its dial-up access and telecommunications infrastructure. Without proper controls over dial-up access, confidential and sensitive data is vulnerable to unauthorized disclosure during transmission over telecommunication lines.

EPA's National Technology Services Division (NTSD) provides the centrally managed automated data processing and telecommunications infrastructures required to support the Agency's mission. NTSD did not plan to force dial-up access through EPA's Internet Firewall, scheduled for implementation in April 2000. Although Region 8 and NTSD management were tightening security controls, the current dial-up access controls did not adequately secure access to the network. Region 8 did not use advanced authentication techniques to protect the dial-up access to the Network. Weak logical and physical access controls contributed to poor security over dial-up access. Furthermore, the Region did not log and audit all dial-up attempts to their system, nor did NTSD have any plans to help regional offices interpret logged data captured at EPA's National Computer Center. Also, we discovered that some of the Region's terminated employees still had access to the regional servers. These weaknesses enable potential intruders to exploit external dial-up access points and increase the vulnerability of regional data and EPA's network and national systems.

We recommended that EPA establish policies and procedures that access rights to computer facilities are limited to proper personnel, that all dial-up connections pass through the firewall, and periodic dial-up training be provided for all remote users.

Agency Action

We issued the final report (2000-P-16) to Region 8's Assistant Regional Administrator (ARA) and the Director, NTSD on March 31, 2000. Both officials responded favorably to the draft report recommendations. The ARA agreed to implement all recommendations under the Regions' control and provided suitable milestone dates for completion. The Director, NTSD stated that NTSD must review various ways of implementing corrective actions before committing to a specific plan of action. The response to the final report is due June 30, 2000.

EPA's policies adequately protect its whistleblower employees. The Agency satisfies statutory requirements to inform employees of their rights and remedies.

The Whistleblower Protection Act (WPA) was established to strengthen and improve protection rights of Federal employees, prevent reprisals, and help eliminate wrongdoing within the Government. WPA mandates that employees should not suffer adverse consequences as a result of prohibited personnel practices, such as retaliation against whistleblowers. Employee protection provisions are also part of the six environmental statutes.

Employees who believe they have been retaliated against for whistleblower activities may file a complaint. The WPA does not require that agencies prepare a whistleblower policy or establish training, but does require that employees are informed of their rights and remedies.

During our review, EPA agreed to update its 1995 memorandum informing employees of their rights and remedies under the WPA, and post it on EPA's Intranet. The memorandum also reaffirms EPA's commitment to the protection of employee rights under the whistleblower protection laws. We believe that the finalized memorandum and proposed whistleblower training to be incorporated into the Agency's annual ethics training will satisfy the Agency's requirement for informing employees of their rights and remedies under whistleblower protection laws and provisions. We found no indications that EPA failed to protect Whistleblowers rights.

For Headquarters and three regional offices, there were 23 whistleblower complaints filed by 17 EPA employees during the past five years. Three of the 23 cases were decided in favor of the employee with no disciplinary actions ordered against an EPA supervisor or manager. In ten cases settled, EPA did not admit fault or recommend disciplinary action.

*EPA Should Better
Integrate the
National
Environmental
Performance
Partnership System*

Agency Action

We issued the final report (2000-S-2) to the Assistant Administrator for Administration and Resources Management on October 20, 1999. We did not make any formal recommendations, and therefore, no response was necessary. The report was closed upon issuance. On April 3, 2000, the Agency issued a memorandum to all employees reaffirming support for proper implementation of the WPA and providing guidance on employee responsibilities and protections.

The National Environmental Performance Partnership System (NEPPS), including the Performance Partnership Grant (PPG) program, has not been well-integrated into the Environmental Protection Agency (EPA) and not all EPA managers and staff buy-into or accept NEPPS. As a result, environmental improvements may not be happening as rapidly or to as great an extent as they might be if there was better integration and acceptance of NEPPS and meaningful performance measurement.

NEPPS requires a change in EPA organizational culture that has not yet occurred. Regional NEPPS coordinators and headquarters staff have adopted NEPPS components into their daily activities. However, many other EPA program managers and staff have not integrated NEPPS into their day-to-day operations or into helping them accomplish EPA's mission.

NEPPS was not well-integrated into EPA because of four factors: lack of (1) leadership that provided a clear direction and set expectations, (2) training and guidance, (3) trust in NEPPS due to fear of change and losing control, and (4) goals and related performance measures to monitor and measure progress on achieving better environmental results. EPA headquarters launched NEPPS without any guidance for the Regions and the states, hoping to encourage innovation and maximize flexibility. While some regional and state staff were able to use some new innovative and flexible approaches to address environmental problems, the lack of guidance, training, and clear direction resulted in many EPA and state staff having widely different impressions and understanding of NEPPS and what it was designed to accomplish.

EPA and states have not been able to redirect scarce resources to improving environmental results. For many EPA regional managers and staff, NEPPS has not focused on environmental results or deferred work that was not a priority. Instead, NEPPS has been added to a long list of traditional work responsibilities. Further, some regional program managers and staff viewed NEPPS as only a paperwork exercise to get a performance partnership agreement in place.

We recommended that EPA work with EPA and state staff to establish clear direction, expectations, goals, performance measures, and milestones for NEPPS and PPGs; ensure the new NEPPS national program manager has full authority and responsibility for implementing NEPPS and PPGs; train EPA and state staff; and develop a NEPPS guidance document that considers the lessons learned to date.

Agency Action

We issued the final report (2000-M-000828-000011) to the Acting Deputy Administrator on March 31, 2000. EPA has initiated some steps to better clarify its directions for NEPPS. A response to the final report is due June 29, 2000.

In March 1994, we issued EPA's Pesticide Program (Report No. 4100205). We recommended that the Office of Pesticide Programs (OPP) improve management processes and information management; update regulations, policies, and procedures; and continue efforts to ensure the integrity of scientific data. Our follow-up audit found that OPP improved program management processes. The Office of Enforcement and Compliance Assurance (OECA) and OPP officials continued to improve data integrity. Improvements were made in the Good Laboratory Practices program, the quality of disinfectant effectiveness studies, and the review of information concerning adverse effects of pesticides.

OPP is responsible for protecting human health and the environment from unreasonable adverse effects from the use of pesticides. Pesticides are chemicals or biological substances used to control unwanted plants, insects, fungi, rodents, or bacteria. OPP's major activities include registration, reregistration, and tolerance reassessment. OECA is responsible for enforcing pesticide laws and ensuring data integrity.

We found that, while OPP's information management has improved since March 1994, some of the original concerns still exist. For example, OPP still had not developed quality assurance procedures to support its systems. OPP officials took some steps to improve efforts to develop and update regulations, policies, and procedures, but they still need to place more attention on regulation development. While OPP officials still face fluctuating resources and growing responsibilities, they have taken some steps to better manage these issues than they did at the time of our prior report. Some OPP activities may still not be completed, or not completed timely, but program officials are striving to make conscious choices on how to make the best use of their resources.

We recommended that the OPP Director establish quality assurance procedures for the individual systems the program plans to continue using and for the program's new information network with firm milestones for bringing it on line. We also recommended that the OPP Director develop plans for: periodically reviewing existing regulations to determine if they need to be updated or eliminated, and reviewing regulations that have been pending for several years to determine if they are still needed.

*EPA Plans
Additional Tests to
Increase Public
Confidence in
Cleanup*

Agency Action

We issued the final report (00P00011) to the OPP Director on March 27, 2000. The Director's response to our draft report included corrective actions that, when completed, will adequately address the findings and recommendations in our report. As a result, a response to the final report is not required.

Region 8 is confident that the risk from radionuclides at the Lowry Landfill site is low, and that early warning systems and effective monitoring to detect radionuclides throughout the treatment process should ensure protection. Region 8 has taken steps, including hiring an independent party to conduct additional groundwater tests, that should assure the Lowry cleanup plan adequately protects human health and the environment and help allay public concerns.

From the mid-1960s until 1980, the City and County of Denver operated an industrial liquid waste and municipal solid waste landfill at the Lowry Landfill site. More than 130 million gallons of liquid waste were disposed of at the site. Over time the liquid seeped through the soil and mixed with groundwater. Some members of the public criticized the way Region 8 addressed the question of whether radionuclides (materials that exhibit radioactive decay) were in the groundwater at the Lowry site and challenged whether the Lowry cleanup plan adequately protected human health and the environment. Radionuclides can cause potential health effects in humans by directly damaging sensitive biological tissue.

Region 8 did not effectively manage four public presentations we evaluated in which members of the public, concerned about radionuclides, challenged the Region's decision to send Lowry groundwater offsite to public wastewater treatment facilities. Region 8's mistakes in the handling of the presentations increased public criticism and negative publicity about its offsite treatment decision. We found Region 8 has taken meaningful steps to more effectively communicate with the public and better manage situations when the public challenges its cleanup decisions.

We recommended that the Regional Administrator: implement the independent party's recommendations, as appropriate, to ensure monitoring and early warning systems are adequate to detect unacceptable levels of radionuclides in groundwater before it leaves the site; clearly explain to the public the factors involved in making site decisions; and carefully plan for all public meetings.

Agency Action

We issued the final report (1998-R8-0000206-00007) to the Region 8 Administrator on February 29, 2000. In response to the draft report, the Region concurred with the recommendations in the report and indicated that it is taking steps to address them. A response to the final report is due May 29, 2000.

***Colorado Company
Fined \$1 Million;
Owner to Pay
\$347,000 in
Restitution and to
Serve 90 Days in
County Jail***

On January 7, 2000, Enviro25 Environmental Services, Inc. (Enviro25), and its owner, Susan Summers, were sentenced in District Court, City and County of Denver, Colorado, for violating Colorado's racketeering statutes. Enviro25 was ordered to pay a \$1 million fine. Summers received a sentence of 12 years incarceration and 5 years mandatory parole, which was suspended upon completion of 90 days incarceration in the Denver County jail, serving 2 years in a community corrections facility, and 10 years of active probation. Summers was also ordered to pay \$347,000 in restitution and \$5,395 in court costs. The sentencing follows guilty pleas by Summers and Enviro25 to one count of criminal attempt to violate the Colorado Organized Crime Control Act (Act) and one count of violating the Act, respectively. In December 1998, Enviro25 and Summers were indicted on 16 counts of forgery and 17 counts of attempting to influence a public servant. Summers was also been charged with one count of violating the Act. Summers started Enviro25 three months after she left a job with the Colorado Department of Health (CDH) where she worked on developing guidance documents for underground petroleum storage tank owners and operators and on enforcement protocols. Enviro25 provided environmental consulting services, including the cleanup of contaminated or suspected contaminated sites. The company also assisted clients with regulatory matters before the CDH and the Colorado Department of Labor and Employment (CDLE), including applications for reimbursement from the Petroleum Storage Tank Fund, development of corrective action plans, and applications for site closure. She and her company were accused of withholding truthful information and falsifying documents submitted to the CDLE and the CDH (now known as the Colorado Department of Public Health and Environment) regarding oil-contamination cleanups at eight Colorado sites from March 1992 to July 1996. *This investigation was conducted jointly by the EPA OIG, the EPA Criminal Investigation Division, and the Colorado Secretary of State's Office of Investigations.*

***Refrigerant
Company and
President to Pay
\$90,995 Fine and
\$68,089 in
Restitution;
President Also
Receives Prison
Term***

On March 23, 2000, Omar Gonzalez of Richmond, Virginia, and his company, Industrial Training and Support Services (ITSS), were sentenced in U.S. District Court, Eastern District of Virginia, for selling fake asbestos training certificates. Gonzales was sentenced to 27 months imprisonment, 2 years supervised release, and ordered to pay \$68,089 in restitution to the Internal Revenue Service. ITSS was sentenced to one year probation. Additionally, Gonzales and ITSS were jointly ordered to pay a \$90,995 fine. The sentencing follows November 1999 guilty pleas by Gonzales and ITSS to charges of making false statements to the government and income tax evasion resulting from selling fraudulent asbestos training certificates. Gonzalez admitted selling certificates to people who had not completed the required courses, including undocumented aliens who were issued certificates under false names. From January 1994 and December 1995, the defendants generated \$90,995 in illegal income from the training classes allegedly given. Gonzalez also admitted owing \$68,089 in back taxes for the years these years. The fraudulent scheme undercut federal and state laws designed to protect workers and the public from health risks by requiring workers to be properly trained and certified to remove, handle, and dispose of asbestos-containing material. *This investigation was conducted jointly by the EPA OIG, the EPA Criminal Investigations Division, the Federal Bureau of Investigation, the Naval Criminal Investigative Service, the General Services Administration OIG, and the IRS Criminal Investigation Division.*

EPA's First Annual Performance Report Focuses on Process Instead of Outcomes

The Office of Inspector General reviewed EPA's first Annual Performance Report and provided both written and oral comments to Agency managers. The Agency did resolve many of our initial concerns about consistency and clarity in presentation, and compliance with reporting requirements in Section 1116 of the Government Performance and Results Act (GPRA). However, we commented that the Performance Report focuses largely on process accomplishments and outputs instead of outcomes and impacts. While there are some excellent measures and stories of achievement, they do not demonstrate a dimension of progress or linkage as the means and strategies between the goals, objectives, activities and eventual outcomes and impacts. Additionally, this report does not identify any resource or cost considerations to show a return on investment for future investment and prioritizing decisions to tell Congress whether EPA is doing the right things (effectiveness), and doing the those things right (efficiency) to achieve its important environmental mission, and if not, why. Although not required by GPRA, but clearly a concern of Congress, this report does not discuss, beyond a few oblique references, the Agency's action to address and resolve the Top Management Challenges identified by the OIG, and the Program Risks identified by the GAO. Also, we suggested that the Agency provide some attestation about the quality of the data. We will continue to work with the Agency to advise and recommend improvements in its management processes through better implementation of the GPRA

Work Done This Period Reviewing the Agency's Implementation of GPRA

Reviews of data quality, systems capacity, controls and security

The EPA OIG has been reviewing and reporting on the quality of EPA program, scientific and financial data for many years and has identified such as material weakness or Management Challenges. Most recently the OIG has reported that Agency systems security is at significant risk and Agency plans to improve its systems were incomplete and ineffective.

Reviews related to Agency Goals

Goal 2.3.1: Clean and Safe Water, Reduce Loadings and Air Depositions . The goal was not clearly defined, resources were not identified, data was not identified or defined to the Regions, without verification and validation process. The specific actions taken were not linked to achievement of the goal and data collected was inconsistent so the it could not be used for effective decision making or accountability. Additionally, the actions supporting this goal may contribute to non-point source pollution in the form of chemical run-off.

Goal 2. We reviewed how the Office of Water communicated the GPRA architecture, and strategy to assure that its regional staff understood and were prepared to implement the GPRA process and requirements in daily management of its programs. We found that the regional staff and management were generally excluded from

development of setting objectives, subobjectives, targets, actions and measures. Therefore, they also lacked knowledge of the linkages and relationship between national program goals and performance measures, and their specific actions and results. While the Office of Water appears to be producing results supporting its national goals, Regional staff does not have the information it needs for local decision making.

Goal 6.1.4 Cleaning up the Great Lakes. All the actions and costs supporting attainment of this goal are not charged to this goal, but rather are fragmented and charged to several different goals. For example National office actions are not charged to this goal alone, but charged to the waste goals. A Senate Appropriations Report was concerned that activities could be identified under more than one goal, dispersing accountability. Our report findings exemplify such fragmentation and lack of a clear linkage between the goal, actions, resources and results.

Goal 7.3.4 Local and Small Government Outreach. There is a gap in the linkage of Goal 7, specific actions, resources and reportable results. While the Region 5 is responsible for action, no regional resources allocated to this goal. Region 5 actions, resources and results are presented as if they are part of Goal 7, but instead are fragmented among other goals preventing accountability for this goal. Also, funds originating from different goals are co-mingled by design in the states, but accountability for attainment of those specific goals is not in place.



Financial Management

EPA Receives Qualified Opinion On Fiscal Year 1999 Financial Statements

We issued a qualified opinion on EPA's fiscal year 1999 financial statements. Our qualified opinion resulted from multiple and untimely submissions, significant errors, and lack of accounting support. EPA's financial systems and methodologies to account for costs by strategic goals cannot be relied on. Additionally, EPA's security plans for its core financial systems continued to contain significant deficiencies.

For fiscal year 1999 the Agency was unable to provide support in a timely manner for the composition of Other Financing Sources for the Superfund Trust Fund and EPA as a whole. Further, the financial statements disclose these differences as Custodial Liability Reclassifications and Other which does not adequately address the source or composition of the amounts. EPA was also unable to provide support for the composition of "Other" in the Statement of Financing for the All Other Appropriated Funds and the Agency as a whole. Additionally, we were unable to apply alternate audit procedures to satisfy ourselves as to the fair presentation of these items. Except for the effects, if any, of adjustments that may have been necessary to correct the items identified above, the fiscal 1999 financial statements fairly present assets, liabilities, and net position. The recommendations we made as a part of the fiscal 1998 financial statement audit, when fully implemented, should correct weaknesses in the Agency's financial statement preparation process.

The Government Performance and Results Act requires EPA to develop plans on intended accomplishments, measure how well it is doing, make appropriate decisions based on the information gathered, and communicate information about performance to Congress and the public. To do this, EPA developed a strategic plan with ten goals and during fiscal 1999 began tracking the cost to achieve each of its goals. We found that the Agency's methodology for accumulating costs by goal could not be relied upon.

We previously reported concerns that security plans for EPA's core financial systems were not compliant with Federal financial management system requirements. Our work continues to show significant deficiencies for fiscal 1999. As a result, we continue to report the issue as a noncompliance with the Federal Financial Management Improvement Act (FFMIA). Additional developments for fiscal 1999 support the listing of computer security controls as a material weakness. EPA's Acting CFO stated that potential vulnerabilities in the Agency's mainframe computer and network servers are an exception to Agency FFMIA compliance.

During tests of compliance with laws and regulations, we did not identify any instances of noncompliance that would result in material misstatements. However, we did note the following two significant noncompliance issues.

EPA disburses grants that are funded from more than one appropriation, using the oldest available appropriation first, which may or may not be the appropriation that benefitted from the work performed. Thus, EPA is not complying with Title 31 U.S.C. 1301 which requires EPA to match disbursements to the benefiting appropriation.

***EPA Should
Recover \$14.3
Million of a
Construction
Grant***

In response to our prior audit report findings, EPA's OCFO conducted biennial reviews of user fees required by OMB Circular A-25, "User Charges" and the CFO Act. The November 1997 review showed five current fees, four proposed fees, and eight exceptions. To be in complete compliance with OMB Circular A-25 requirements, the Acting CFO needs to either update user fees, or obtain exceptions from OMB, for the user fees in the 1997 review.

FFMIA requires that we determine whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger at the transaction level. We identified that EPA was unable, in most cases, to report its intra-governmental assets and liabilities by trading partner because finance offices were not coding transactions to show this information. Reporting trading partner information enables the Treasury to eliminate intra-governmental transactions from its Financial Report of the United States Government. Agencies also need this information so they can manage their assets and liabilities.

To correct the other FFMIA noncompliances we recommended the Acting Chief Financial Officer (CFO) incorporate planned fiscal 2000 security plan actions for financial systems into a formal remediation plan; establish procedures to identify actual costs by goal, objective and subobjective at the time the costs are recorded; develop timely, reliable, accurate cost reports; develop a Statement of Net Cost with accurate and reliable cost information by goal; and issue policies to require all finance offices to expedite the review and input of trading partner information. We also recommended actions for other internal control and compliance issues.

Agency Action

We issued the final report (00100231) to the Acting CFO on February 29, 2000. In response to the draft report, the Acting CFO agreed that further improvements need to be made to the process for preparing financial statements. The Acting CFO also agreed with many of the recommendations and indicated corrective actions are planned or ongoing. However, he believes the weaknesses we identified in the financial statement preparation process do not warrant categorization as a material weakness, nor are they indicative of the Agency's inability to provide managers with information that is accurate and reliable for use on a day-to-day basis to manage Agency programs. A response to the final report is due by May 30, 2000.

EPA's Region 4 needs to collect \$14.3 million in cost recoveries from the City of Ft. Lauderdale, Florida. This action will compensate EPA for a construction grant paid to build a compost facility that was prematurely abandoned.

In August 1983, EPA awarded the City of Ft. Lauderdale, Florida a \$15.8 million construction grant to build a dewatering facility and an off-site compost facility. The City closed the compost facility after approximately two years of operation because of mechanical and odor control problems. In September 1990, EPA offered the City a \$1.3 million grant amendment that funded 100 percent of the costs to correct the problems.

However, the City declined use of the supplemental grant funds because it believed the technology failed and the facility was incapable of operating satisfactorily. The City never re-opened the compost facility and in June 1998, requested EPA's approval to demolish the facility and sell the land.

EPA's policy on Abandonment of Wastewater Treatment Works generally requires that grant recipients operate and maintain treatment facilities over their useful life consistent with the Clean Water Act. The policy also obligated EPA to pursue cost recovery if grant recipients terminated use of the facilities without adequate justification. Region 4 program officials reviewed the circumstances related to the City's decision to abandon the facilities after only two years and concluded that cost recovery was required. We calculated the EPA share of the costs (\$14.3 million) for the abandoned facilities.

We recommended that the Regional Administrator, Region 4, recover \$14.3 million as EPA's share of the costs to construct the compost facility.

Agency Action

We issued the final report (2000-7-00007) to the Regional Administrator, Region 4, on February 24, 2000. A response is due by May 24, 2000.

Actions by EPA's National Remedy Review Board (NRRB) will save an estimated \$68 million at Superfund cleanup sites. These savings are attributable to effective operations and decisions by the NRRB.

In 1995, EPA created the National Remedy Review Board (NRRB) as part of a comprehensive package of reforms to make the Superfund program faster, fairer and more efficient. The NRRB is a peer group composed of 20 EPA managers and senior technical experts. NRRB's goal is to annually review about 10 percent of all proposed cleanup remedies for Superfund sites. The reviews are generally limited to proposed high-cost cleanup decisions that meet specific dollar thresholds to assure that the proposed remedies are cost efficient and consistent with current law, regulations, and guidance. As of December 1998, the NRRB had reviewed proposed cleanup decisions for 34 sites with estimated costs of almost \$2.9 billion. As of January 1999, EPA regions had documented estimated future savings of \$68 million based on NRRB recommendations for seven of the 34 sites.

We found the NRRB was generally effective in performing comprehensive reviews of high-cost remedies and providing advice that fostered consistency in regional remedial decisions. The estimated savings resulting from the NRRB's decisions appeared to be realistic and sometimes conservative. NRRB's requirements for regional proposal packages and subsequent reviews have also promoted improved decision-making and documentation of proposed remedies by regional staffs. We identified several opportunities for EPA to improve the NRRB's operations and offered suggestions for implementing these improvements.

AED Still Needs to Improve Its Management of Extramural and Property Resources

Agency Action

We issued the final report (2000-P-00005) to the Assistant Administrator for Solid Waste and Emergency Response on December 21, 1999. Since there were no formal recommendations, the report was issued in final after receiving comments from NRRB staff on the proposed final report. The final report was closed upon issuance.

Atlantic Ecology Division (AED) located in Narragansett, Rhode Island has not corrected contract and property management weaknesses previously identified. These weaknesses were repeatedly reported but were not addressed. As a result, accountable property is not properly safeguarded.

In 1993, the OIG initially reported contract management weaknesses. AED's extramural management specialist also reported contract and property management weaknesses in 1996. However, AED still has not corrected these problems. AED's management is not adequately overseeing administrative practices in contract and property management. As a result, one contract was not effectively managed and \$6.2 million of accountable property was not safeguarded. Valuable property is vulnerable to misuse or theft; custodial officer designations are outdated; annual inventories are not performed; and status of loaned equipment is unknown.

AED studies the effects of contaminants and other stressors on the coastal waters and watersheds of the Atlantic seaboard. AED administered about \$10 million in extramural resources at its Narragansett site in fiscal year 1999.

While management of the Automated Data Processing contract was adequate, management of the Operations and Maintenance (O&M) contract continued to be deficient. The project officer did not ensure that the contractor provided all the preventive maintenance required in the contract. Also, the project officer procured services which the O&M contractor could have provided under the existing contract. Until recently, the O&M project officers lacked either the skills or experience to manage the contract effectively. Senior management did not ensure that these project officers had access to the appropriate technical expertise needed to evaluate a contractor's performance properly. As a result, the O&M contractor, not AED, controlled the work.

Although AED improved in its oversight of cooperative agreements, documentation for interagency agreements (IAGs) costs remained insufficient as previously reported by the OIG in 1993. The cooperative agreement project officers diligently monitored grant activities and maintained adequate documentation to assure that they met the terms of the agreements. As a result, these cooperative agreements helped fulfill AED's research mission to support science. However, reasonableness of IAG costs could not be determined and the IAG project officer did not ensure receipt and review of the required supporting cost documentation.

We recommended that the Director, AED establish contract and property management procedures to ensure resources are used effectively and safeguarded; develop a formal system to resolve weaknesses identified; and develop a tracking system to monitor contractor performance and commitments.

Agency Action

We issued the final report (2000-P-00015) to the Assistant Administrator for Research and Development on March 29, 2000. In response to the draft report, the Assistant Administrator generally concurred with the report's findings and recommendations. AED had already taken corrective action on many of the recommendations. A response to the final report is due June 28, 2000.



Assistance Agreement Investigations

Former State Air Authority Director and Two Others Pleaded Guilty to Public Corruption and Conspiracy Charges

On October 8, Patsy J. DeLuca, former Executive Director of the North Ohio Valley Air Authority (NOVAA), pleaded guilty in U.S. District Court, Southern District of Ohio, to a 2 count information charging him with accepting an unlawful gratuity as a public official and conspiracy to defraud the government. Also on that date, Ronald DeLuca, his son, and Vincent R. Zumpano, a former employee of NOVAA, each pleaded guilty to a 2 count indictment charging each with aiding and abetting the acceptance of an unlawful gratuity by a public official and conspiracy to defraud the government. On March 24, 2000, Richard W. Canestraro, former NOVAA Board member, also pleaded guilty to aiding and abetting Patsy DeLuca. NOVAA, prior to its disbanding in 1997, was a multi-county air quality regulatory agency headquartered in Steubenville, Ohio. NOVAA received federal funds from the EPA through the Ohio Environmental Protection Agency (Ohio EPA) to enforce federal and state air quality laws. While Patsy DeLuca was Executive Director, he agreed to accept \$169,750 for advising Pine Hollow C&D Landfill near Steubenville on pending applications before the Ohio EPA for new or expanded sites. Patsy DeLuca was aided in this agreement by Ronald DeLuca, Zumpano, and Canestraro. Patsy and Ronald DeLuca and Zumpano also admitted causing Ronald to file false individual and corporate income tax returns in 1995 and 1996 in order to conceal the nature of the illegal gratuity. Each man has agreed to cooperate with the Internal Revenue Service in determining taxable income, tax, penalties, and interest due. As a further result of the our investigation, on February 8, 2000, the EPA recovered \$28,328 from Ohio EPA as a result of Ohio EPA's efforts to recover excess funds from Ohio EPA's contractual termination with NOVAA. *This investigation was conducted jointly by the EPA OIG, the Federal Bureau of Investigation, and the Internal Revenue Service Criminal Investigation Division.*

Former Accountant Pleaded Guilty to Embezzling from Non-Profit Organization; Daughter Pleaded Guilty to Wire Fraud

On February 24 and 25, 2000, guilty pleas were entered in U.S. District Court, Western District of Washington, by Wallace G. Jorgensen and his daughter, Gina R. Jorgensen, respectively. Wallace G. Jorgensen, former lead accountant of the National Asian Pacific Center on Aging (NAPCA), pleaded guilty to charges of embezzling property from a program receiving federal funds and falsifying an income tax return. Gina R. Jorgensen pleaded guilty to a charge of wire fraud. The NAPCA, one of six grantee organizations funded by EPA through the Senior Environmental Employment Program, is a non-profit organization whose mission is to serve the needs of older Asian and Pacific Americans throughout the United States through employment and training programs. Wallace Jorgensen devised various schemes in which he issued thousands of NAPCA payroll and travel advance checks to himself and immediate family members. The defendant and his family members used the embezzled funds to purchase various goods and services, including clothing, and to make down payments on several cars and at least one house. From 1993 to 1999, Jorgensen embezzled in excess of \$1.8 million. He failed to report the income from the embezzled funds on his federal income tax returns, resulting in a tax loss of \$609,083. Gina Jorgensen devised and executed a scheme to obtain a home mortgage loan. In application papers, she claimed to be employed by Jorgensen Construction, a fictitious company, variously claiming earnings of \$4,800 and \$5,700 per month. As part of the scheme, she sent, via wire facsimile, a copy of her checking account monthly statement showing deposits of more than \$10,000, serving to support her fictitious employment income. She knew, however, that all of the deposits reflected on the statement actually derived from funds provided by her

*City of Cleveland
Agrees to Pay
\$643,737 to Settle
Claims of Misuse
of Grant Funds*

father. *This investigation was conducted jointly by the EPA OIG, the Department of Labor OIG, the Federal Bureau of Investigation, and the Internal Revenue Service Criminal Investigation Division.*

On January 7, 2000, the United States entered into an agreement with the City of Cleveland in U.S. District Court, Northern District of Ohio, to settle a civil lawsuit charging that the city's Air Pollution Control Program improperly spent a total of \$429,158 in grant funds awarded by EPA for the fiscal years 1995 to 1998 for air pollution and prevention. The original complaint was filed as a False Claims Act *qui tam* suit by a former employee of the city's Department of Public Health, Bureau of Air Pollution Control (BAPC), alleging various abuses of federal grant monies. Based upon the work of EPA OIG investigators and auditors, the timekeeping and financial records of the BAPC were found to be in such a state of disarray that EPA could seek the return of all federal monies awarded for fiscal years 1995 to 1998, which totaled \$2,382,286. The United States intervened in the lawsuit in June 1999 and filed an amended complaint alleging that a number of BAPC employees spent only a part or none of their time on air pollution prevention activities.



Contract Investigations

Cambridge Firm Pays \$1.9 Million to Settle False Claims Allegations

On October 20, 1999, ABT Associates, Inc. (ABT), of Cambridge, Massachusetts, entered into an agreement with the United States, through the District of Massachusetts and the Middle District of North Carolina, and paid \$1.9 million to settle civil claims arising under the federal False Claims Act. The Federal Acquisition Regulations (FAR) prohibit government contractors from billing the government for its subcontractor costs prior to actually paying those costs (Paid Cost Rule). From 1988 until early 1998, ABT allegedly billed as many as fifteen different government agencies for subcontractor costs which it had not yet incurred. An audit by the Defense Contract Audit Agency reflected that during this period, ABT may have billed the government prematurely nearly 74% of the time. The United States alleged that ABT knowingly engaged in this conduct and deprived it of the use of the funds paid to ABT prematurely. Thus, the United States suffered losses in the form of imputed interest. ABT's government clients included the EPA, the Department of Health and Human Services, the Department of Justice, the Executive Office of the President, and the National Science Foundation. In 1998, ABT hired a new accounting staff, and when they learned of the problem, they made significant changes in accounting procedures to ensure that the conduct did not recur. As part of its settlement, ABT entered into a Compliance Agreement which requires the company to retain an independent entity to review ABT's compliance with the FAR on an annual basis, to train its employees on government contract compliance, and to maintain a help line/hotline for ABT employees who seek guidance on government contracting issues or who wish to report improper government contracting practices. *This investigation was led by the EPA OIG with the assistance of the Defense Contract Audit Agency.*

Engineering Firm Entered into \$35 Million Settlement; EPA Awarded \$669,674 in Damages

On March 8, 2000, the United States entered into an agreement with Jacobs Engineering Group, Inc. (Jacobs), in U.S. District Court, Central District of California, to settle a civil lawsuit charging that Jacobs submitted false claims for fifteen years by charging excess lease costs to its government contracts. The original complaint was filed as a False Claims Act *qui tam* suit alleging that Jacobs knowingly violated a provision of the Federal Acquisition Regulation governing sales and lease-back arrangements. The suit alleged that Jacobs overcharged the EPA; the Departments of the Air Force, Army, and Navy; the Department of Energy, and the National Aeronautics and Space Administration. According to the complaint, Jacobs sold its corporate headquarters in 1982 and then entered into a 15 year lease-back agreement that included rates in excess of its prior ownership costs, passing the higher rental costs to the government in the form of unallowable charges on its contracts. Jacobs, headquartered in California and one of the largest global engineering, architecture, technology, and construction firms, had performed work for EPA under the construction grant program. EPA was awarded \$669,674 in damages by the settlement. *This investigation was conducted jointly by the EPA OIG, the Air Force Office of Special Investigations, the Naval Criminal Investigative Service, the Army Criminal Investigation Division Command, the Department of Energy OIG, with the Defense Contract Audit Agency providing audit support.*

***Virginia Firm
Agrees to Pay
\$415,000 to Settle
False Claims
Allegations***

On March 30, 2000, ManTech International Corporation, Inc. (ManTech), of Fairfax, Virginia, entered into an agreement with the United States, through the Eastern District of Virginia and the Middle District of North Carolina, to pay \$415,000 to settle civil claims arising under the federal False Claims Act. The Federal Acquisition Regulations (FAR) prohibit government contractors from billing the government for its subcontractor costs prior to actually paying those costs (Paid Cost Rule). From October 1991 to January 1996, ManTech allegedly prematurely billed the EPA, the Department of Defense (DOD), and the National Aeronautics and Space Administration (NASA) for subcontractor costs and other direct costs. ManTech denied any criminal acts, but acknowledged that certain of its billings did not fully comply with the Paid Cost Rule. The company, therefore, agreed to compensate the government for the interest it lost as a result of the pre-mature billings and for a portion of the cost of the investigation, a total of \$415,000. The settlement agreement incorporates separate administrative proceedings being conducted by the EPA, Office of Suspension and Debarment, as lead agency. *This investigation was conducted jointly by the EPA OIG; the NASA OIG; the DOD Defense Criminal Investigative Service, and the Naval Criminal Investigative Service.*

***Virginia
Environmental
Company To Pay
\$74,000 in
Restitution***

On February 10, 2000, Environmental Systems & Technologies, Inc. (EST), of Blacksburg, Virginia, having pleaded guilty in U.S. District Court, Western District of Virginia, to a misdemeanor charge of intentionally directing a laborer to apply hours on a federal contract, was ordered to pay \$74,000 in restitution to EPA and a \$950 fine. As a result of the guilty plea, the government dismissed with prejudice the April 1999 indictment which charged the company and its president and owner, Jack C. Parker, with conspiracy, making false statements, submitting false claims, and mail fraud. EST, an environmental company specializing in the development and application of computer-aided technology for assessment and remediation of soil and groundwater contamination, and Parker allegedly engaged in a scheme to defraud their customers by mischarging and over billing. Parker was charged with directing and encouraging his employees to falsify their time sheets by mischarging hours spent on a particular project in order to maximize the hours spent on each customer's contract to receive full payment under the contract regardless of the actual work accomplished. EST, as a subcontractor to IT Corporation (IT) on a contract with EPA, allegedly mischarged 123 hours on timesheets it submitted to IT; IT in turn submitted the alleged false claim to EPA for payment.

***Three Laboratory
Employees
Sentenced for
Falsifying Test
Results at a North
Carolina
Laboratory***

Three employees of CompuChem Environmental Corporation of Cary, North Carolina, were sentenced in U. S. District Court, Eastern District of North Carolina, on charges of making a false statement and aiding and abetting others in the commission of making a false statement. On October 29, 2000, Mark Bevan, a laboratory supervisor, was sentenced to 3 years probation, 100 hours of community service, and ordered to pay a \$1000 fine. On December 16, 1999, Richard P. Lemis, a second shift supervisor at the laboratory, was sentenced to 3 years probation, 75 hours of community service, and ordered to pay \$2,100 in restitution. On December 17, 1999, Valerie Smith, a chemist, was sentenced to 5 years probation, a period of home confinement not to exceed 180 consecutive days, 100 hours of community service, and ordered to pay \$1,800 in restitution. Bevan, Lemis, and Smith were

*Four New Areas
are Added to the
Agency's Top
Management
Challenges List*

charged with conducting improper gas chromatograph/mass spectrometer analyses on samples taken from hazardous waste sites nationwide and falsely certifying that the analyses complied with all EPA contract requirements. The EPA relies on the testing data provided by laboratories participating in the Contract Laboratory Program to assess threats to public health and the environment and to determine where and when remedial action is needed.

At the request of Congress, the Federal Offices of Inspector General are asked to annually identify the Top Ten Management Challenges facing their respective departments and agencies. The Top Ten Management Challenges in EPA represent areas of systemic weakness or specific vulnerability seriously threatening the success or integrity of Agency operations. For Fiscal 1999, the Office of Inspector General reported the following Management Challenges that need to be addressed timely for EPA to effectively accomplish its environmental mission.

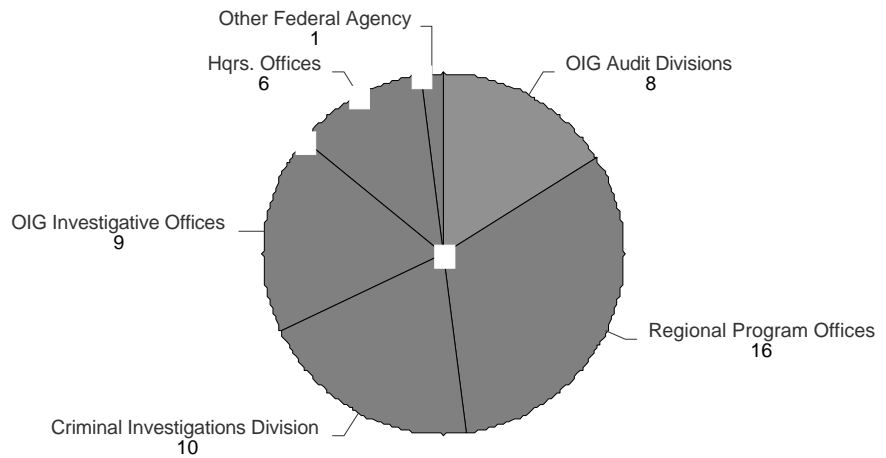
1. Accountability (*updated*)
2. Environmental Data Information Systems (*updated*)
3. Backlog of National Pollutant Discharge Elimination System Permits (*updated*)
4. Oversight of Assistance Agreements (*updated*)
5. Employee Competencies (*updated*)
6. EPA's Automated Information Systems Security (*updated*)
7. Quality of Laboratory Data (*new*)
8. Agency Process for Preparing Financial Statements (*new*)
9. Superfund Five-Year Reviews (*new*)
10. The Great Lakes Program (*new*)

The items identified as *updated* were also listed in the Top Ten Management Challenges for Fiscal 1998. The ones identified as *new*, are listed for the first time as Management Challenges, although our work has previously brought them to the Agency's attention.

The Office of Inspector General is committed to working collaboratively with EPA and our external stakeholders to view environmental and management challenges as opportunities for win-win solutions. We believe the Agency has made significant progress towards resolving three previously reported Top Management Challenges: (1) Agency's Relationship With Contractors; (2) Use of Inefficient Contract Types; and (3) Quality Assurance Plans. While the Agency is responsible for ensuring that its continuing actions correct the problems in those areas, we plan to closely monitor EPA's plans and progress in resolving each area.

Hotline Activities

During this reporting period, the OIG Hotline opened 50 new cases and closed 23. The pie chart shows the distribution of the 50 opened cases.



Hotline Case Referral Distribtuion

Complaints continue to be reviewed by a team of auditors, evaluators, and criminal investigators as conditions warrant. All matters significant enough to require a response are monitored until the necessary resolution action is planned or taken. Complaints are analyzed to identify trends which should be considered in the audit and investigative planning processes.

Section 2-Fostering Strong Working Relationships Advisory and Assistance Services

OIG Provides Information Systems Assistance

To demonstrate our commitment to helping EPA achieve its environmental mission and focus on our customers, the OIG continued to work with several Agency program offices. The OIG participates in various workgroups in the Office of Chief Financial Officer (OCFO), Office of Environmental Information (OEI), and Office International Activities (OIA) to address information resources management issues. These workgroup activities are advisory services which allow the OIG to address customer needs on mission critical issues.

We participate in three OCFO Agency-level workgroups. The workgroups, formed in Fiscal 1999, are addressing replacing the travel module in the Integrated Financial Management System (IFMS), Budget Allocation System (BAS) and the EPA Payroll system. The travel module workgroup is evaluating pilots of off-the-shelf software. The BAS workgroup is evaluating needed changes and development of system upgrades. In January 2000, the BAS workgroup completed preliminary assessments, recommended replacing the payroll system with off-the-shelf software, and the CFO agreed to replace the system.

We are also involved in four Agency-level workgroups with the OEI and a fifth joint workgroup with OIA and OEI. The Data Quality Indicators workgroup started, in Fiscal 1999, competed prototype metadata for data quality indicators that will be presented to management. We are participating in two Information Integration Initiative workgroups that are addressing (1) Agency and regional office needs for correcting and ensuring accurate data, and (2) establishing an Agency Facility Registry System (FRS). In addition, we helped the Agency determine security and off-site storage needs for its headquarters critical servers. Finally, we are participating in a joint OEI and OIA workgroup to identify international environmental information activities and develop a strategic plan for the Agency's international work.

EPA Did Not Deobligate Unliquidated Obligations for Interagency Agreements Timely

EPA spends millions of dollars each year to obtain goods or services from other Federal agencies through Interagency Agreements (IAGs). In December 1998, EPA had \$1.29 billion in open obligations for IAGs. We found unliquidated obligations for IAGs were not deobligated in a timely manner because the responsible agency officials had not placed sufficient emphasis on oversight of these funds. The deobligation process is critical to EPA's efforts to maximize the use of funds. Although the Agency has policies and procedures governing the responsibilities for oversight of IAGs, and for deobligating funds, Agency officials did not consistently follow the procedures. This resulted in IAG funds remaining obligated to projects which were either completed or canceled. Of the \$4.7 million of unliquidated obligations reviewed, we identified \$2.3 million (49 percent) which should have been deobligated and used for other purposes, or which may have expired.

We determined that: (1) IAGs had not been timely deobligated; (2) interaction among Agency offices, to deobligate IAG funds, needed improvement; (3) the unliquidated review process could be strengthened; (4) Region 7 and Region 2 were pro-active in deobligating IAG funds; and, (5) the new IAG Close-Out Policy was a key factor in more IAG funds being deobligated. We concluded that Agency officials responsible for IAG funds control must exert better oversight of unliquidated obligations, and consistently implement their IAG policies and procedures.

We recommended that EPA deobligate the \$2.3 million in unliquidated obligations as no longer valid, and review all IAGs inactive for 18 months or more to determine if funds should be deobligated. We also recommended the reinforcement of responsibilities for the ongoing review of IAG funds. To enhance EPA's review process, we recommended that the annual unliquidated obligation report be prepared in a format to show the age of the outstanding unliquidated balances.

Agency Action

We issued the final report (2000-P-000004-R5-000329) to the Assistant Administrator for Administration and Resources Management and the Chief Financial Officer, on December 10, 1999. In responding to the draft report, the Agency agreed in principle with most of our recommendations, but disagreed with our approach to solving some of the issues. The response to the final report was due on March 10, 2000. A response had not been received to the final report.

The OIG has taken significant steps to investigate and counter illegal intrusions of EPA's computer systems. We are planning a specialized computer intrusion investigative unit. We appointed a Special Agent representative to coordinate investigations with the National Infrastructure Protection Center (NIPC), which is headed by the FBI. Our representative is also the established point of contact for GAO's FED-CIRC (Computer Intrusion Response Center). Our teaming with both organizations will substantially increase EPA's knowledge of intrusion efforts by outside parties and allow for enhanced coordination of investigative efforts by the OIG and other law enforcement agencies. Additionally, we provided advanced training to some of our field agents in the means and methods of today's computer "hackers" and the applicable federal statutes violated by their intrusions. This advanced training will be given to other OIG and EPA staff members. We are working with EPA staff, including the Information Security Officers, to inform them of our efforts and of the available training and to provide them with designated points of contact for investigative referrals.

Section 3- Operating at The Highest Performance Level

Teamwork Rewarded

Bronze Medal awards were presented by Inspector General Nikki L. Tinsley to members of a team consisting of OIG auditors and investigators and supported by EPA contracting officers and a Suspension Debarment attorney. The OIG team, directed jointly by an OIG investigator and auditor, was recognized for their efforts in coordinating mass information and attempting to pursue civil, criminal and administrative investigative action involving a complex contracting fraud matter. The various EPA Contracting Officers, in several regions, were recognized for their expertise and support in the contracting arena for the OIG action. The teaming of the above individuals, consisting of OIG and agency personnel, is a showcase for fostering strong working relationships.

OIG Employees Honored

During this reporting period, the United States Attorney's Office honored special agents from our Office of Investigations at separate awards ceremonies. Michael R. Stiles, United States Attorney, Eastern District of Pennsylvania presented a special agent from our Philadelphia Office, Mid-Atlantic Investigations Division, with a certificate "in recognition of his dedicated commitment in a series of prosecutions of environmental testing laboratories which falsified test results for soils and water on a systematic basis, jeopardizing the safety of the environment and the health of the people." The recognition was given in response to work on the Hess Environmental Laboratory investigation which resulted in five criminal convictions and \$5.5 million in recoveries. Alejandro Mayorkas, United States Attorney, Central District of California, presented a special agent from our San Francisco Office, Western Investigation Division, and a special agent from the Air Force Office of Special Investigations with awards for their outstanding contributions to the Jacobs Engineering Group, Inc., investigation. Our special agent was further commended for critical work he and divisional staff provided during negotiations which resulted in a \$35million settlement.



Section 4-Audit Report Resolution

Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending March 31, 2000

Report Category	No. of Rpts	Report Issuance (Dollar Value in Thousands)		Report Resolution Costs Sustained (Dollar Value in Thousands)	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by October 1, 1999	131	\$100,932	\$95		
B. Which were issued during the reporting period	353	41,054	0		
C. Which were issued during the reporting period that required no resolution	231	0	0		
Subtotals (A + B - C)	253	141,986	95		
D. For which a management decision was made during the reporting period	100	26,734	95	\$15,361	0
E. For which no management decision was made by March 31,2000	153	115,252	0		
Reports for which no management decision was made within six months of issuance	55	77,244	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 IG Reports**

This section presents statistical information as required by the Inspector General Act Amendments of 1988 on the status of EPA management decisions on reports issued by the OIG involving monetary recommendations.

As presented, information contained 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. We expect that a high proportion of unsupported costs may not be sustained.

Table 1 -- Inspector General Issued Reports With Questioned Costs for Semiannual Period Ending March 31, 2000

Report Category	Number of Reports	Questioned Costs* (Dollar Value in Thousands)	Unsupported Costs (Dollar Value in Thousands)
A. For which no management decision was made by September 30, 1999**	59	\$100,932	\$27,666
B. New reports issued during period	39	41,054	17,083
Subtotals (A + B)	98	141,986	44,749
C. For which a management decision was made during the reporting period	48	26,734	8,315
(i) Dollar value of disallowed costs	30	15,361	5,288
(ii) Dollar value of costs not disallowed	18	11,373	3,027
D. For which no management decision was made by March 31, 2000	50	115,252	36,434
Reports for which no management decision was made within six months of issuance	33	77,244	13,572

* Questioned costs include the unsupported costs.

**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.

Table 2 -- Inspector General Issued Reports With Recommendations That Funds Be Put To Better Use for Semiannual Period Ending March 31, 2000

Report Category	Number of Reports	Dollar Value (In Thousands)
A.For which no management decision was made by October 1, 1999	1	\$95
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	1	95
C.For which a management decision was made during the reporting period	1	95
(i) Dollar value of recommendations from reports that were agreed to by management	0	0
(ii) Dollar value of recommendations from reports that were not agreed to by management	1	95
(iii) Dollar value of non-awards or unsuccessful bidders	0	0
D.For which no management decision was made by March 31, 2000	0	0
Reports for which no management decision was made within six months of issuance	0	0

* As part of the OIG reinvention initiative, the OIG was in the process of switching to a new Performance and Accountability System during this reporting period. Until the system is thoroughly tested, some of the statistics reported may not represent the final results of our operations as of the time the report was printed.

Audits With No Final Action As Of 3/31/00-Which are over 365 Days Past OIG Report Issuance Date		
Audits	Total	Percentage
Programs	41	18.3
Assistance Agreements	123	54.9
Contract Audits	48	21.5
Single Audits	7	3.1
Financial Statement Audits	5	2.2
TOTAL	224	100.0

Summary of Investigative Results

Summary Of Investigative Activities

Pending Investigations as of September 30, 1999	192
New Investigations Opened This Period	31
Investigations Closed This Period	42
Pending Investigations as of March 31, 2000	181

Prosecutive and Administrative Actions

In this period, investigative efforts resulted in twenty-one convictions and seventeen indictments.* Fines and recoveries, including those associated with civil actions, amounted to \$7.5 million. Seven administrative actions were taken as a result of investigations.

Resignations	1
Terminations	1
Suspensions & Debarments	2
Restitutions	2
Other	1
TOTAL	7

* Does not include indictments obtained in cases in which we provided investigative assistance.

Profiles of Pending Investigations by Type

General EPA Programs
 Superfund
 Total Cases = 122
 Cases = 59

Total