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U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

# Semiannual Report to Congress

October 1, 2010–March 31, 2011



# **Index of Reporting Requirements**

## **Inspector General Act of 1978, as amended**

<b>Requirement</b>	<b>Subject</b>	<b>Pages</b>
Section 4(a)(2)	Review of legislation and regulations	37–38
Section 5(a)(1)	Significant problems, abuses, and deficiencies	3–36
Section 5(a)(2)	Significant recommendations for corrective action	4–32, 35–36
Section 5(a)(3)	Reports with corrective action not completed	60
Section 5(a)(3)	Peer reviews conducted	37
Section 5(a)(4)	Matters referred to prosecutive authorities	3–4, 33–34, 44–45
Section 5(a)(5)	Information or assistance refused	None
Section 5(a)(6)	List of reports issued	46–49
Section 5(a)(7)	Summaries of significant reports	4–32, 35–36
Section 5(a)(8)	Audit, inspection, and evaluation reports—questioned costs	40–42, 45–49
Section 5(a)(9)	Audit, inspection, and evaluation reports—funds to be put to better use	40–42, 45–49
Section 5(a)(10)	Prior audit, inspection, and evaluation reports unresolved	41–42, 50–59
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

### **Abbreviations**

CSB	U.S. Chemical Safety and Hazard Investigation Board
DCAA	Defense Contract Audit Agency
EPA	U.S. Environmental Protection Agency
FY	Fiscal year
OIG	Office of Inspector General
OMB	Office of Management and Budget
RCRAInfo	Resource Conservation and Recovery Act Information System

**Cover photos:** We examined various EPA efforts related to the spending of American Recovery and Reinvestment Act of 2009 funds. *From left:* school buses are often a source of diesel emissions, and we looked at Diesel Emission Reduction Act grants (EPA photo); we conducted a site visit at a construction project in Oregon (EPA OIG photo); we also conducted a site visit at a water system project in Georgia (EPA OIG photo).

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Office of Inspector General and its activities, visit our website at:**

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



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## Message to Congress

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I am pleased to present the U.S. Environmental Protection Agency (EPA) Inspector General Semiannual Report to Congress for the reporting period October 1, 2010, through March 31, 2011. This report chronicles the Office of Inspector General's (OIG's) efforts to assist the EPA in protecting human health and the environment, and maximizing the return on investment of taxpayer dollars invested in the EPA. The OIG accomplished these tasks by (1) conducting and supervising audits and investigations related to EPA programs and operations; (2) recommending policies to Agency management for activities designed to promote economy, efficiency, and effectiveness in EPA programs and operations; and (3) keeping the EPA Administrator and the Congress informed about problems and deficiencies relating to the administration of EPA's programs and operations, as well as the necessity for, and progress of, corrective actions.

A substantial portion of our resources during this semiannual reporting period were devoted to assisting the EPA—through our audits, evaluations, and investigative activities—in properly and efficiently spending the \$7.2 billion it received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). We issued a dozen reports related to EPA's Recovery Act efforts.

We discovered, for example, that EPA needs to ensure that it has sufficient contracts and grants staff to perform both Recovery Act and non-Recovery Act activities. More specifically, we found that EPA's emphasis on Recovery Act activities resulted in non-Recovery Act activities being delayed or not completed. Moreover, we found that EPA did not clearly describe its responsibilities in the terms and conditions of the Recovery Act-funded interagency agreements that we reviewed. Federal guidance and EPA's internal policies provide that an interagency agreement should identify both the requesting and servicing agencies' responsibilities. Because EPA did not clearly define its responsibilities within its Recovery Act interagency agreements and supporting documents, it did not effectively establish accountability for implementing those agreements.

We also found that EPA regions are unable to ensure that states have directed Recovery Act funds to shovel-ready Leaking Underground Storage Tank sites that provide the greatest environmental benefit. Also, documentation of grant activities did not always demonstrate that Recovery Act-funded Diesel Emissions Reduction Act work achieved the desired emissions reductions, and EPA did not always document delays in diesel emissions projects. We issued reports on unannounced site visits for six Recovery Act projects. We found issues at three sites, and nothing came to our attention at the other three sites that would require action.

One of our investigations found that a foreign-based manufacturer and its U.S. subsidiary were awarded numerous Recovery Act contracts after falsifying that their equipment met Buy American provisions and, as a result, equipment valued in excess of \$1.1 million was seized. Our Recovery Act fraud awareness briefings are reaping the intended results. In one instance, an EPA employee who attended one of our training sessions contacted us about potential fraud. While the fraud allegations were unsubstantiated, we found that the principal of the company and his wife

were debarred from government contracting due to bankruptcy fraud convictions. As a result, they are no longer eligible for further Recovery Act contracts. Another person who attended a training session contacted us regarding counterfeit surety bonds; a stop-work order was subsequently issued and the contracts terminated, saving \$3.4 million in Recovery Act funds.

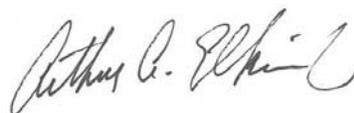
While our Recovery Act work is important, we continued our normal activities in a variety of equally important program areas. For example, we found that EPA lacks controls to prevent misuse of emergency drinking water facilities; that EPA promoted the use of coal ash products with incomplete risk information; and that the ENERGY STAR program has sought to maximize the number of qualified products available at the expense of identifying products and practices that maximize energy efficiency. Moreover, in the area of workforce planning, we found that EPA policies do not include a process for determining employment levels based on workload. We also found that until EPA enforces a coherent position management program, the Agency lacks reasonable assurance that it is using personnel in an effective and efficient manner.

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for fiscal years 2010 and 2009, meaning that they were fairly presented and free of material misstatement, but we did note four significant deficiencies. Further, as a result of one of our reviews, EPA Region 3 deobligated \$6.1 million in unliquidated obligations. We also found that improvements are needed in replacing EPA's core financial system, and that EPA can improve its network traffic management practices as well as its data system for tracking hazardous solid waste shipments.

The OIG requested \$60,766,000 for fiscal year 2012, which is \$4,760,000 more than the President's Budget request. The additional investment is needed to strengthen the OIG's ability to investigate cyber attacks and develop and deploy a prevention and mitigation strategy. The current OIG cyber security investigation team's limited resources may impede the OIG's ability to effectively assist the Agency in securing its information technology networks, commensurate with the risks.

The above highlights a small sample of our activities conducted during this reporting period. I encourage you to read the remainder of our report for a more complete overview of our work during this highly productive semiannual reporting period for the EPA OIG.

We know that the Agency's efforts to safeguard human health and the environment will continue in the face of serious environmental and budgetary challenges. The dedicated staff of the Office of Inspector General will also continue to do its best to ensure that Agency programs achieve their intended results and that its funds are properly expended.



Arthur A. Elkins, Jr.  
Inspector General

# Table of Contents

<b>About EPA and Its Office of Inspector General</b> .....	1
U.S. Environmental Protection Agency .....	1
EPA Office of Inspector General .....	1
<b>OIG Recovery Act Efforts</b> .....	2
Investigations Find Issues Regarding Recovery Act Funds .....	3
Audits and Evaluations Address Recovery Act Funding .....	4
<b>Other Significant OIG Activity</b> .....	11
Water .....	11
Superfund/Land .....	12
Cross-Media .....	16
Special Reviews .....	19
Grants and Contracts .....	22
Forensic Audits .....	23
Financial Management .....	24
Risk Assessment and Program Performance .....	28
Information Resources Management .....	30
Investigations .....	33
U.S. Chemical Safety and Hazard Investigation Board .....	35
Other Activities .....	37
<b>Statistical Data</b> .....	40
Profile of Activities and Results .....	40
Audit, Inspection, and Evaluation Report Resolution .....	41
Hotline Activity .....	43
Summary of Investigative Results .....	44
Scoreboard of Results .....	45
<b>Appendices</b> .....	46
Appendix 1—Reports Issued .....	46
Appendix 2—Reports Issued Without Management Decisions .....	50
Appendix 3—Reports With Corrective Action Not Completed .....	60
Appendix 4—OIG Mailing Addresses and Telephone Numbers .....	61

# About EPA and Its Office of Inspector General

## U.S. Environmental Protection Agency

The mission of the U.S. Environmental Protection Agency (EPA) is to protect human health and the environment. As America's steward for the environment since 1970, EPA has endeavored to ensure that the public has air that is safe to breathe, water that is clean and safe to drink, food that is free from dangerous pesticide residues, and communities that are protected from toxic chemicals. EPA requested \$10.02 billion in discretionary budget authority for fiscal year (FY) 2011, and has been operating under a series of continuing resolutions.

## EPA Office of Inspector General

The Office of Inspector General (OIG) is an independent office of EPA that detects and prevents fraud, waste, and abuse to help the Agency protect human health and the environment more efficiently and cost effectively. Although we are part of EPA, Congress provides us with a budget line item separate from the Agency's to ensure our independence. The EPA OIG was created and is governed by the Inspector General Act of 1978, as amended (P.L. 95-452). OIG staff are physically located at headquarters in Washington, DC; at regional headquarters offices for all 10 EPA regions; and at other EPA locations including Research Triangle Park, North Carolina, and Cincinnati, Ohio. The OIG requested \$60,766,000 for FY 2012, which is \$4,760,000 more than the President's Budget request for the OIG of \$56,006,000. The additional resources in FY 2012 are needed to strengthen the OIG's ability to investigate cyber attacks and develop and deploy a prevention and mitigation strategy. Such attacks could compromise public safety and personal property.

### EPA OIG Vision and Mission

#### ***Vision***

We are catalysts for improving the quality of the environment and government through problem prevention and identification, and cooperative solutions.

#### ***Mission***

Add value by promoting economy, efficiency, and effectiveness within EPA and the delivery of environmental programs. Inspire public confidence by preventing and detecting fraud, waste, and abuse in Agency operations and protecting the integrity of EPA programs.

# OIG Recovery Act Efforts

The American Recovery and Reinvestment Act of 2009 (Recovery Act), signed by President Obama on February 17, 2009, provides the EPA OIG \$20 million for oversight activities through September 30, 2012. The OIG is conducting audits, investigations, and other reviews to ensure economy and efficiency, and to prevent and detect fraud, waste, and abuse in EPA's disbursement of the \$7.2 billion the Agency received under the Recovery Act. The Recovery Act provided the EPA OIG \$20 million through September 30, 2012, for oversight and review of the Agency's Recovery Act activities and expenditures. As of March 31, 2011, the OIG had expended \$10.8 million in Recovery Act funds. The OIG reviews, as appropriate, concerns raised by the public about specific investments using Recovery Act funds.



Individuals may report any suspicion of fraud, waste, or abuse of EPA stimulus funds via the OIG Hotline. Any findings not related to ongoing criminal proceedings will be posted on our website at <http://www.epa.gov/oig/recovery.htm>.

As part of our outreach efforts, the OIG's Forensic Audits Division has issued a brochure, *Detering Fraud, Waste & Abuse of EPA Funds*, to alert the public to our ongoing efforts. To view and download the brochure, issued in English and Spanish, go to [http://www.epa.gov/oig/fraud\\_waste\\_abuse.htm#brochures](http://www.epa.gov/oig/fraud_waste_abuse.htm#brochures).

The OIG's Office of Investigations has implemented a three-pronged approach—education, outreach, and investigations—to spread the word about the requirements of the Recovery Act and to deter, detect, and dismantle fraud schemes. A key goal is to educate stakeholders and provide resources to help them use funds appropriately. We provided Recovery Act-specific fraud training and presentations to Agency personnel; state, tribal, and local officials; contractors; and grant recipients. Since the enactment of the Recovery Act in 2009 through March 31, 2011, we provided 143 briefings across the country to over 4,000 personnel who are administering or receiving Recovery Act funds. In addition, we developed and distributed professional fraud awareness and education materials, including pamphlets, postings, briefings, and webinar broadcasts. The OIG has also participated in Agency Recovery Act workgroups and committees.

Details on OIG Recovery Act efforts during the semiannual reporting period ending March 31, 2011, follow.

## Investigations Find Issues Regarding Recovery Act Funds

### Equipment Worth \$1.1 Million Seized

A foreign-based manufacturer and its U.S. subsidiary were awarded numerous Recovery Act-funded contracts after falsely certifying to municipalities that their equipment met the Buy American provision of the Recovery Act. The contracts were for providing equipment used in wastewater treatment facilities across the United States. Equipment valued in excess of \$1.1 million has been seized.

The investigation to date, including the execution of search warrants, has determined that the equipment did not meet the substantial transformation requirements under the Recovery Act. The equipment was manufactured at an overseas facility and shipped to the United States in a completed state. The U.S. facility simply tested the equipment before shipping it to the municipalities that purchased the equipment with Recovery Act funds.

*This investigation is ongoing and is being conducted jointly with the U.S. Department of Homeland Security, Homeland Security Investigations.*

### Company and Principal Debarred

An EPA employee who attended an OIG Recovery Act fraud awareness training session contacted the OIG to report information about a potential fraud involving the awarding of Recovery Act grants in Saipan, Commonwealth of the Northern Mariana Islands.

While the allegations pertaining to the fraudulent award were unsubstantiated, it was determined that the principal of the company and his wife had previously been convicted of bankruptcy fraud. Based in part on the prior conviction, the principal and his company were debarred from government contracting for 4 years on January 24, 2011. The debarment precludes any additional participation in Recovery Act-funded projects.

### Contractor and Two Employees Suspended

A contractor provided counterfeit surety bonds to obtain \$3.5 million in contracts with the City of Sacramento, California, to install replacement water meters. These contracts were funded using Recovery Act dollars.

When the allegations of the counterfeit bonds surfaced, a city employee who had attended one of our Recovery Act fraud awareness training sessions contacted us. The city

subsequently issued a stop-work order and terminated its contracts with the contractor, saving \$3.4 million in Recovery Act funds.

As a result of investigative efforts to date, two company officials were indicted in July 2010 for violating 18 U.S. Code 371 (Conspiracy) and 18 U.S. Code 494 (Uttering and Publishing False Contractors Bonds). On March 29, 2011, the company and two of its employees were suspended from participation in government contracts and assistance agreements.

*This investigation is being conducted jointly with the Federal Bureau of Investigation.*

## Audits and Evaluations Address Recovery Act Funding

### **EPA's Contracts and Grants Workforce May Face Future Workload Issues**

EPA should ensure that it has sufficient contracts and grants staff to perform both Recovery Act and non-Recovery Act activities.

Of the \$7.2 billion EPA received from the Recovery Act, EPA retained \$81.5 million for management and oversight.

EPA emphasized Recovery Act activities with respect to its administration, monitoring, and oversight responsibilities, resulting in non-Recovery Act activities being delayed or not completed. The management and oversight of resource allocations were not always based on workforce analyses of the actual resources needed to accomplish Recovery Act activities. Factors such as the funding limitations set forth in the Recovery Act heavily influenced how Recovery Act management and oversight funds were distributed. As a result, non-Recovery Act resources were devoted to Recovery Act activities, leaving less time for staff to focus on non-Recovery Act administration, monitoring, and oversight.

We recommended that EPA review the metrics for Recovery Act and non-Recovery Act contract and grant activities for the period ending September 30, 2010, prepare action plans for any measure that did not meet its goal in 2010, and develop and implement organization-wide performance measures to better manage its activities. The Agency agreed with our recommendations.

*(Report No. 11-R-0005, EPA's Contracts and Grants Workforce May Face Future Workload Issues, October 25, 2010)*

## **EPA Should Strengthen Leaking Underground Storage Tank Priority Lists**

EPA regions are unable to ensure that states have directed Recovery Act funds to shovel-ready Leaking Underground Storage Tank sites that provide the greatest environmental benefit.

EPA allocated \$190.7 million of Recovery Act funds to support state and territorial Leaking Underground Storage Tank cleanup programs for cleaning up contaminated sites.

While the Recovery Act grants we reviewed contained most of the requirements specified in Agency regulations and guidance, we found three management control deficiencies with these grants: (1) EPA had not clarified to states whether municipally owned Leaking Underground Storage Tank sites would be eligible for Recovery Act funds, (2) EPA had no plan to deobligate unspent Recovery Act funds, and (3) EPA in many instances does not use state data to ensure that grants comply with site priority requirements. EPA corrected the first two deficiencies by spring 2010 through additional guidance to the regions, but has not yet corrected the third deficiency. While every Recovery Act Leaking Underground Storage Tank cooperative agreement we reviewed contained language to fund shovel-ready sites, the agreements varied considerably in how they addressed site prioritization.

We recommended that EPA ensure that the site priority requirement of the Solid Waste Disposal Act, as amended, is consistently incorporated into the terms and conditions of future Leaking Underground Storage Tank Trust Fund grant agreements. The Agency agreed with our recommendation.

*(Report No. 11-R-0018, Leaking Underground Storage Tank Recovery Act Grants Contained Requirements but Priority Lists Need More Oversight, November 22, 2010)*

## **EPA Should Ensure Effective Diesel Emissions Reductions**

Documentation of grant activities did not always demonstrate that Recovery Act-funded Diesel Emissions Reduction Act work achieved the desired emissions reductions.

In FY 2008, EPA began funding projects through grants authorized by the Diesel Emissions Reduction Act. Under this authority, EPA competitively awards grants for projects to achieve significant reductions in diesel emissions, thus improving air quality and protecting public health. In addition, EPA awards grants to support state diesel emissions reduction programs.

Additional EPA guidance and oversight is needed to ensure that projects achieve the planned emissions reductions and that activities are reported accurately. Furthermore,

EPA should better define early replacement for its state grant awards as early replacements are considered normal attrition and are not eligible for Diesel Emissions



School buses, which are often a source of diesel emissions. (EPA photo)

Reduction Act funding. The methodology used by prime grantees to report the number of jobs funded by the Recovery Act appeared reasonable.

We recommended that EPA's Office of Air and Radiation develop oversight procedures to provide reasonable assurance that grantee progress reports are accurate and that emissions certification levels are verified. We also recommended that the office require that Diesel Emissions Reduction Act grant and subgrant agreements specify the emissions certification level or year of new engines installed as part of vehicle replacement and engine repower projects.

We also recommended that EPA issue guidance clearly defining eligible costs for early replacements of vehicles and engines for state grants, and recoup unsupported expenditures of funds. EPA agreed with our recommendations and provided us with detailed corrective actions it has already undertaken or that are ongoing or planned. This included supplemental supporting documentation to preclude the need for EPA to recoup any Diesel Emissions Reduction Act expenditures.

*(Report No. 11-R-0141, EPA Should Improve Guidance and Oversight to Ensure Effective Recovery Act-Funded Diesel Emissions Reduction Act Activities, March 1, 2011)*

## **EPA Should Better Document Diesel Emission Reduction Act Grant Project Delays**

While EPA project officers were aware of grant project delays for Recovery Act Diesel Emission Reduction Act projects, they did not always document delays in EPA's grants management system or, in some cases, take action to reduce the impact of delays.

The Recovery Act provides the EPA Diesel Emissions Reduction Program with \$300 million for a variety of diesel emission reduction strategies. To accomplish its objective, EPA awarded \$244 million via grants under the State and National Clean Diesel Funding Assistance Programs.

EPA stated in March 2009 that all grants would have an initial project period through September 30, 2010. EPA met its secondary goal to have 40 percent of the Recovery Act grant funds expended by that date. However, as of June 30, 2010, 49 grants, worth \$101,437,442, had less than 10 percent of the funds expended. Eighty-five percent of the grantees did not finish projects by the completion date, and EPA granted no-cost time extensions for all those grantees. In 10 of 15 cases we reviewed, project officers did not

document these delays, and EPA did not take sufficient action in some cases by establishing new milestone dates and instituting corrective actions when approving grant extensions. Delayed projects may result in recipients not completing projects within specified timeframes and may delay achievement of Recovery Act objectives.

We recommended that EPA revise the baseline and advanced monitoring report questions and corresponding guidance, verify that project officers document delays in baseline and advanced monitoring reports, and institute corrective actions when delays occur. We also recommended that EPA require project officers to regularly report to management on the progress of projects and status of corrective actions. EPA agreed with our recommendations.

*(Report No. 11-R-0179, EPA Needs to Better Document Project Delays for Recovery Act Diesel Emission Reduction Act Grants, March 28, 2011)*

## **EPA Should Improve Interagency Agreement Processes**

Because EPA did not clearly define its responsibilities within its Recovery Act interagency agreements and supporting documents, it did not effectively establish accountability for implementing those agreements.

EPA uses interagency agreements when it acquires goods and services from other federal agencies. From February 17, 2009, through June 30, 2010, using \$278 million of Recovery Act funding, EPA entered into interagency agreements for project management services under the Superfund and Drinking Water State Revolving Fund programs.

EPA did not clearly describe its responsibilities in the terms and conditions of the Recovery Act-funded Superfund and Drinking Water State Revolving Fund interagency agreements we reviewed. EPA stated that defining its roles and responsibilities in interagency agreements was unnecessary because its role was clearly defined in EPA policy and guidance. We found that decision memoranda and matrices for EPA Recovery Act interagency agreements met the requirements set forth in EPA policies, but we believe that additional detail would be beneficial. EPA could consider the cost and level of effort associated with the procurement, management, and oversight of construction contracts for all Superfund cleanup contracting delivery options, to ensure that EPA has selected the most efficient and effective method.

We recommended that EPA amend terms and conditions for Recovery Act interagency agreements. We also recommended that EPA prepare a program evaluation of levels of effort and use this evaluation to develop a strategy for determining the best value for delivering Superfund construction contracts. EPA agreed with our recommendations.

*(Report No. 11-R-0016, EPA's Terms and Conditions as Well as Process to Award Recovery Act Interagency Agreements Need Improvement, November 16, 2010)*

## **EPA Can Improve Use of Financial Monitoring Reviews for Superfund Contracts**

EPA program staff do not have the knowledge of financial monitoring review cost-related issues that impact Recovery Act Superfund contract costs being billed. As a result, the staff may approve ineligible invoiced costs.

The Recovery Act provided \$600 million in supplemental funding for Superfund remedial cleanups, of which \$246 million was expended as of August 2010. The Office of Acquisition Management's financial monitoring review program selectively reviews high-risk active contracts valued over \$5 million.

EPA is implementing the monitoring functions established in the contracts functional area of the EPA Recovery Act stewardship plan. These monitoring functions are standard internal controls. However, program staff are not always aware of the results of the financial monitoring reviews and, therefore, cannot use the reviews as a project management tool for Superfund projects funded by the Recovery Act.

We recommended that EPA revise policies and procedures to ensure that financial monitoring review reports are distributed timely to all project officers, work assignments managers, and task order managers assigned to the contract impacted by the financial monitoring review, as well as those working on other active contracts with the same contractor. The Agency implemented the corrective action on October 22, 2010.

*(Report No. 11-R-0081, EPA Can Improve the Use of Financial Monitoring Reviews for Recovery Act Superfund Contracts, January 31, 2011)*

## **Site Visits of Recovery Act Projects Conducted With Varying Results**

As part of OIG efforts to ensure that EPA is spending Recovery Act funds in accordance with requirements, we completed six site visits during the semiannual reporting period. As part of our visits, we toured the projects, interviewed relevant parties, and reviewed documentation related to Recovery Act requirements. For three sites, we identified no issues that required corrective action by EPA or the recipients, but we found issues at three other sites.

The **Town of Ball, Louisiana**, received \$1 million in Recovery Act funds from the Louisiana Department of Environmental Quality under the Clean Water State Revolving Fund program, for sewer pump station rehabilitation and improvements. We identified no issues that required corrective action by EPA or the recipient. *(Report No. 11-R-0014, American Recovery and Reinvestment Act Site Inspection of Sewer Pump Station Rehabilitation and Improvements, Town of Ball, Louisiana, November 9, 2010)*

The **City of Long Beach, California**, received \$5,813,786 in Recovery Act funds from the California State Water Resources Control Board under the Clean Water State Revolving Fund program. This amount comprised \$4,319,107 for the Colorado Lagoon Restoration project, \$539,634 for the Los Angeles River Vortex Separation System, \$403,200 for the Los Angeles River Trash Nets, and \$551,845 for the Los Angeles River Trash Separation Device. The Recovery Act funds were for principal forgiveness. We identified a wage compliance issue that merits attention. A California State Water Resources Control Board representative said the state will work with the city to ensure the city has proper controls in place for wage compliance. (*Report No. 11-R-0082, American Recovery and Reinvestment Act Site Inspection of the Clean Water State Revolving Fund Projects at the City of Long Beach, California, February 1, 2011*)

The **City of Parma, Ohio**, received three loans totaling \$4,443,102 for the Bradenton, Grantwood, and Manhattan Avenue projects from the Ohio Environmental Protection Agency and the Ohio Water Development Authority under the Clean Water State Revolving Fund program. The loans included \$2,221,551 in principal forgiveness. The city is to use these funds to eliminate contamination by providing sewer service to unsewered properties. We identified no issues that required corrective action by EPA or the recipient. (*Report No. 11-R-0083, American Recovery and Reinvestment Act Site Inspection of Sewer System Improvement Projects, City of Parma, Ohio, February 2, 2011*)

The **City of Astoria, Oregon**, is constructing an underground storage tank, an odor control facility, and a sanitary sewer pipeline as part of its Denver Street Storage Project. The project is funded by two Clean Water State Revolving Fund loans totaling



Denver Street Storage Project under construction in Astoria, Oregon. (EPA OIG photo)

\$7,475,436 from the Oregon Department of Environmental Quality. One of the loans provided \$4,000,000 in Recovery Act funds, of which 50 percent of the loan principal will be forgiven if the city complies with the loan agreement. We found that the city and the Oregon Department of Environmental Quality understated the number of jobs created or retained with Recovery Act funds, and for one of four contracts awarded a change order that did not meet applicable procurement requirements, resulting in \$57,346 in unallowable costs being claimed. EPA and the state agreed with our recommendations. (*Report No. 11-R-0172, American Recovery and Reinvestment Act Site Visit of the Denver Street Storage Project, City of Astoria, Oregon, March 22, 2011*)

Project costs for the **Town of Saugus, Massachusetts**, sewer system rehabilitation project totaled \$2,504,691. The town received a \$2,290,239 loan from the Massachusetts Clean Water State Revolving Fund to fund the project. Using funds provided under the Recovery Act, the Clean Water State Revolving Fund provided principal forgiveness of

\$210,702. The town is required to repay the remaining loan amount of \$2,079,537. We identified no issues that required corrective action by EPA or the recipient. (*Report No. 11-R-0192, American Recovery and Reinvestment Act Site Visit of the Comprehensive Sewer System Rehabilitation, Subsystem PS-5, Saugus, Massachusetts, March 29, 2011*)

The **City of Waleska, Georgia**, received loans totaling \$615,000 from the Georgia Environmental Facilities Authority for a water system improvement project. These loans included \$386,610 of Recovery Act funds distributed through the Drinking Water State Revolving Fund program (\$246,000 for principal forgiveness and a \$140,610 loan). Prior to our visit, the city and state determined that the prime contractor was violating contract



Water system improvement site in Waleska, Georgia.  
(EPA OIG photo)

terms and issued a stop-work order. Therefore, we were unable to perform all of the required procedures necessary to determine compliance with Recovery Act requirements. During our review, we found the city did not execute written contracts for engineering, inspection, and legal services, and did not prepare a cost or price analysis for its engineering services. However, we found no applicable federal, state, or local requirements that require the city to execute written contracts or prepare a cost or price analysis. Without federal, state, and local cost principles and procurement standards, we do not have reasonable assurance that Recovery Act funds are awarded and

distributed in a prompt, fair, and reasonable manner, and that funds are used for Recovery Act purposes. We plan to address this issue in a separate report to the Agency. We identified no other issues that require corrective action by the city, state, or EPA. (*Report No. 11-R-0193, American Recovery and Reinvestment Act Site Visit of Water System Improvement, Waleska, Georgia, March 29, 2011*)

# Other Significant OIG Activity

## Water

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

### **EPA Lacks Controls to Prevent Misuse of Emergency Drinking Water Facilities**

Neither EPA nor the states know the amount of risk that public water system customers may face from misuse of water from emergency facilities.

Approximately 6,700 public water systems have at least one water source designated for emergency use. In 2008, the Illinois Environmental Protection Agency discovered that one of its public water systems supplemented purchased surface water with contaminated water from an emergency facility without notifying the state agency.

EPA cannot accurately assess the risk of public water systems delivering contaminated drinking water from emergency facilities because of limitations in Safe Drinking Water Information System data management. There is no federal regulatory requirement for EPA or states to oversee or monitor emergency facilities. EPA and the states do not have common definitions or understandings of what constitutes an emergency facility, and there is no common understanding of when and how emergency facilities may be used. States rely on water systems to self-report when they use these emergency facilities, but this reporting is voluntary. Consequently, EPA cannot accurately assess the risk faced by those served by water systems with emergency facilities.

We recommended that EPA develop standard definitions for the five facility availability codes, develop standard operating procedures to assist the states with entering data into State Safe Drinking Water Information System databases, and determine whether additional fields are needed in the Federal Safe Drinking Water Information System. We also recommended that EPA assess the risk associated with the unauthorized use of emergency facilities and, if necessary, develop controls to mitigate that risk. The Agency neither agreed nor disagreed with our recommendations.

*(Report No. 11-P-0001, EPA Lacks Internal Controls to Prevent Misuse of Emergency Drinking Water Facilities, October 12, 2010)*

For details on additional water issues, refer to:

- Page 3, “Equipment Worth \$1.1 Million Seized”
- Page 3, “Contractor and Two Employees Suspended”
- Page 7, “EPA Should Improve Interagency Agreement Processes”
- Page 8, “Site Visits of Recovery Act Projects Conducted With Varying Results”
- Page 25, “EPA Region 3 Deobligates \$6.1 Million in Unliquidated Obligations, Escalation Process Cited as a Best Practice”
- Page 33, “Laboratory Co-Owners and Affiliated Companies Debarred”

## Superfund/Land

*Improving waste management and clean-up*

### **EPA Promoted Use of Coal Ash Products With Incomplete Risk Information**

EPA may have known earlier about risks from large-scale disposal of coal combustion residuals described as beneficial use if it had implemented plans in 2005 to identify environmentally safe and beneficial use practices.

Coal combustion residuals are generated from burning coal. More than 136 million tons of coal combustion residuals were generated in 2008. EPA defines beneficial use of coal combustion residuals as one that provides a functional benefit, replaces the use of an alternative material, conserves natural resources, and meets relevant product



Spreading and compacting fly ash structural fill. (EPA photo)

specifications and regulatory standards. Without proper protections, coal combustion residual contaminants can leach into ground water and migrate to drinking water sources, posing significant public health concerns.

EPA did not follow accepted and standard practices in determining the safety of the 15 categories of coal combustion residual beneficial uses it promoted through the Coal Combustion Products Partnership program. EPA's application of risk assessment, risk screening, and leachate testing and modeling was significantly limited in scope and applicability.

EPA officials said they relied on individual state beneficial use programs to review and approve specific coal combustion residual beneficial uses, and to manage associated risks. EPA documented these risks in damage cases presented in its June 2010 proposed rule to regulate certain coal combustion residuals. EPA stated in the proposed rule that certain uses of coal combustion residuals—in sand and gravel pits as well as large-scale fill operations—represent disposal rather than beneficial use. After release of its proposed rule, EPA stopped promoting beneficial uses of coal combustion residuals through the Coal Combustion Products Partnership program.

We recommended that EPA define and implement risk evaluation practices for beneficial uses of coal combustion residuals, and that it determine if further action is warranted to address historical coal combustion residual structural fill applications. EPA agreed with our recommendations.

*(Report No. 11-P-0173, EPA Promoted the Use of Coal Ash Products With Incomplete Risk Information, March 23, 2011)*

## Coal Combustion Products Partnership Website Issues Noted

During our review of EPA's use of coal ash products (see above), we noted that EPA's Coal Combustion Products Partnership website presented an incomplete picture regarding actual damage and potential risks that can result from large-scale placement of coal combustion residuals. We therefore submitted an early warning report to EPA regarding this website issue.

Since 2001, EPA has been promoting the beneficial use of coal combustion residuals through the Coal Combustion Products Partnership, including through the partnership's website. In June 2010, EPA released a proposed rule to regulate coal combustion residuals.

In its proposed rule, EPA showed that environmental risks and damage can be associated with the large-scale placement of unencapsulated coal combustion residuals, and states it does not consider large-scale placement of coal combustion residuals as representing beneficial use. However, EPA's Coal Combustion Products Partnership website, which contained general risk information, did not disclose this EPA decision. The Coal Combustion Products Partnership website also contained material that gave the appearance that EPA endorses commercial products; such an endorsement is prohibited by EPA ethics policies and communications guidelines.

We recommended in this early warning report that EPA remove the Coal Combustion Products Partnership website during the rulemaking process, and identify why actions prohibited by EPA policies occurred and implement controls to establish accountability. EPA agreed, removed access to the website, and proposed actions to address the recommendation.

*(Report No. 11-P-0002, Website for Coal Combustion Products Partnership Conflicts with Agency Policies, October 13, 2010)*

## EPA Needs Controls to Ensure Proper Brownfields Site Investigations

Because of EPA's lack of oversight and reliance on environmental professionals' self-certifications, "all appropriate inquiries" investigations at Brownfields sites not meeting federal requirements may go undetected.

Grantees awarded EPA Brownfields assessment grants must meet all appropriate inquiries requirements. To ensure a proper investigation on potential contamination and liability at Brownfields sites, grantees must conduct all appropriate inquiries, also known as environmental due diligence investigations, in compliance with federal regulations, and issue a report on findings.

EPA does not review all appropriate inquiries reports submitted by grantees to assure that they comply with federal requirements. Rather, EPA has relied on the environmental professional conducting the all appropriate inquiries to self-certify that requirements are met. Of the 35 all appropriate inquiries reports we reviewed, from 3 EPA regions, none contained all the required documentation elements. Improper all appropriate inquiries investigations introduce risk that the environmental conditions of a property have not been properly or adequately assessed. Ultimately, threats to human health and the environment could go unrecognized.

We recommended that EPA establish accountability for compliant all appropriate inquiries reports, develop a plan to review all appropriate inquiries reports, and establish criteria to determine whether noncompliant grantees should return federal grant money. In its 90-day response to the report, EPA partly or fully concurred with the recommendations. However, the Agency continues to disagree with some OIG conclusions. We are working to resolve the disagreements and obtain a complete corrective action plan from EPA.

*(Report No. 11-P-0107, EPA Must Implement Controls to Ensure Proper Investigations Are Conducted at Brownfields Sites, February 14, 2011)*

### **Improved Oversight Needed at Wheeling Disposal Superfund Site**

Our independent sampling results from the Wheeling Disposal Superfund Site, near Amazonia, Missouri, were generally consistent with the sampling data that Region 7 has obtained historically. However, when the responsible parties reported their annual monitoring results, Region 7 inadvertently allowed them to use incorrect and outdated surface water standards, and outdated ground water standards.

The OIG is testing long-term monitoring results at Superfund sites EPA has deleted from the National Priorities List. The Wheeling Disposal Site was added to the National Priorities List in 1989 and deleted in 2000.

By allowing incorrect standards and analysis methods, the region has limited assurance that unsafe levels of contaminants are not migrating off-site and creating risk to human health and the environment. These issues do not adversely impact the region's current protectiveness determination. However, if incorrect and outdated standards continue to be used, or results are not properly analyzed, the region may be unable to detect when excess levels of contaminants migrate offsite.

In a 2009 report, Region 7 should have explained the impact of excess levels of iron and aluminum at sampling locations close to the site boundaries. EPA records describe the

site as a “habitat for wildlife and birds.” However, the region had not addressed contaminants in the site’s surface water that can pose risks to ecological receptors. In response to OIG inquiries and Agency guidance, in October 2010, the region completed an ecological risk assessment, which showed that the remedy is protecting the environment.

We recommended that Region 7 ensure: accurate and correct surface water, ground water, and analytic standards are used; the ecological risk assessment is completed; and excess levels of compounds are controlled. Region 7 agreed with the recommendations and has initiated or completed some actions.

*(Report No. 11-P-0034, EPA Should Improve Its Oversight of Long-Term Monitoring at Wheeling Disposal Superfund Site in Missouri, December 20, 2010)*

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

- Page 5, “EPA Should Strengthen Leaking Underground Storage Tank Priority Lists”
- Page 7, “EPA Should Improve Interagency Agreement Processes”
- Page 8, “EPA Can Improve Use of Financial Monitoring Reviews for Superfund Contracts”
- Page 17, “EPA Needs Plan for Tribal Solid Waste Management Capacity Assistance”
- Page 31, “Data System for Tracking Hazardous Solid Waste Shipments Needs Improvement”
- Page 33, “Sentencings Continue in Bid Rigging Case at New Jersey Superfund Site”

## Cross-Media

*Evaluating nontraditional approaches to protecting the environment and challenges that cut across programs*

### ENERGY STAR Label Needs to Assure Superior Performance

We believe the ENERGY STAR program has sought to maximize the number of qualified products available at the expense of identifying products and practices that maximize energy efficiency.

ENERGY STAR is a voluntary program designed to help businesses and individuals enhance energy efficiency. In 1996, EPA partnered with the U.S. Department of Energy to promote the ENERGY STAR label.



A refrigerator can be an ENERGY STAR product. (ENERGY STAR website photo)

EPA's implementation of the ENERGY STAR program has become inconsistent with the program's authorized purpose: to achieve environmental benefits by identifying and promoting energy-efficient products and practices that meet the highest energy conservation standards. We previously found that EPA could not assure that using ENERGY STAR products and practices actually deliver the benefits savings that EPA reports annually, or that consumers are purchasing the most energy-efficient products on the market. Products historically qualified for the ENERGY STAR label based on manufacturer self-certification rather than EPA testing.

In 2009, EPA and the U.S. Department of Energy signed a new memorandum of understanding to enhance and expand federal programs that advance energy efficiency, including ENERGY STAR. Because these changes have not yet occurred, their effectiveness remains to be determined.

We recommended that EPA develop a strategic vision and program design that assures that the ENERGY STAR label represents superior energy conservation performance. We also recommended that EPA develop a set of goals and valid and reliable measures. EPA disagreed with many of our conclusions, but concurred with the proposed recommendations. Subsequently, the Agency submitted a corrective action plan that meets the intent of the recommendations.

*(Report No. 11-P-0010, ENERGY STAR Label Needs to Assure Superior Energy Conservation Performance: A Summary Report, October 28, 2010)*

## **EPA Needs to Assure Effectiveness of Antimicrobial Pesticide Products**

EPA's Antimicrobial Testing Program cannot provide assurance to the public that label claims on antimicrobial products are valid.

Antimicrobial pesticides are designed to destroy or suppress harmful bacteria, viruses, and other microorganisms on inanimate objects and surfaces. EPA's Office of Pesticide Programs initiated the Antimicrobial Testing Program in response to a 1990 U.S. Government Accountability Office report, which concluded that EPA lacked an enforcement strategy to ensure that registered disinfectants worked as claimed on product labels.

The Antimicrobial Testing Program has been testing to ensure antimicrobial products, including hospital disinfectants and tuberculocides, meet stringent efficacy standards. However, after nearly 19 years, over 40 percent of registered products have not been tested. Those that have been tested have experienced a consistently high failure rate. Test results of samples submitted via the direct shipment initiative were not considered sufficient for enforcement. Also, EPA does not have a strategy for informing hospitals and other likely end-users of failed test results or when enforcement actions are taken. Sometimes, the response to the Antimicrobial Testing Program's test failures is retesting, which can take years; meanwhile, the product may remain available for use.

We recommended that EPA redesign its process to verify antimicrobial effectiveness by providing reasonable efficacy assurances for all registered products, and by providing sampling protocol that enables regulatory and enforcement actions as well as consistent monitoring of actions taken. The Agency agreed with most of our findings and was responsive to our recommendations. Subsequently, the Agency submitted a corrective action plan that meets the intent of the recommendations.

*(Report No. 11-P-0029, EPA Needs to Assure Effectiveness of Antimicrobial Pesticide Products, December 15, 2010)*

## **EPA Needs Plan for Tribal Solid Waste Management Capacity Assistance**

The lack of a single, Agency-wide plan for helping tribes manage solid waste and eliminate open dumps results in poor coordination and limited oversight, and may lead to an ineffective use of resources.

Illegal dumping of solid waste poses significant health and environmental risks to the members of 564 federally recognized Indian tribes throughout the country. Currently, there are nearly 4,000 reported open dumps on tribal lands. EPA has been working for

over 25 years to help tribes develop the capacity to manage solid waste and enforce against illegal dumping.

EPA does not have an Agency-wide plan that defines the roles and responsibilities of EPA program offices and regions in helping tribes manage solid waste. EPA also lacks internal controls that hold its offices accountable for providing consistent solid waste management assistance to tribes. As a result, EPA cannot ensure that consistent solid waste management assistance is provided, accurately determine the risks of open dumps, or determine whether efforts are effective nationwide. EPA also lacks internal data controls to track the status of open dumps.

We recommended that EPA develop an Agency-wide plan to implement consistent and effective tribal solid waste management capacity assistance. The Agency did not agree with our conclusion and did not accept most of the recommendations in the report. EPA did agree to identify resources required for providing solid waste assistance and to improve program office coordination.

*(Report No. 11-P-0171, EPA Needs an Agency-Wide Plan to Provide Tribal Solid Waste Management Capacity Assistance, March 21, 2011)*



*From left: A typical dump site usually found in remote forested areas within reservation boundaries; an open dump site on tribal lands in California; a reservation open dump site that has caught fire. (EPA photos)*

## Special Reviews *Reviewing issues of fraud, waste, and misuse in EPA programs*

### EPA Needs Better Agency-Wide Controls Over Staff Resources

Without an Agency-wide position management program, EPA lacks reasonable assurance that it is using personnel in an effective and efficient manner.

Position management provides the operational linkage between human capital goals and the placement of qualified individuals into authorized positions. Over the last 5 years, EPA has averaged a little over 18,000 positions in its organizational structure.

#### Staff resources, FYs 2006–2010

Fiscal year	Enacted budgets (in billions)	Full-time equivalents	Number of employees at start of fiscal year
2006	\$7.7	17,631	18,461
2007	7.7	17,560	18,327
2008	7.5	17,324	18,109
2009	7.6	17,252	18,306
2010	10.3	17,417 (est.)	18,518

Source: FY 2011 EPA Budget in Brief for the full-time equivalents and enacted budget amounts; EPA Office of Human Resources for the number of employees.

EPA does not enforce a coherent program of position management to assure the efficient and effective use of its workforce. While some organizational elements have independently established programs to control their resources, there is no Agency-wide effort to ensure that personnel are put to the best use. Prior to April 2010, EPA had the *Position Management and Control Manual*, which required an Agency-wide program. However this manual was not enforced, and in April 2010, it was cancelled without replacement. According to the cancellation memorandum, the manual was eliminated because Office of Administration and Resources Management officials believed EPA had other mechanisms in place to appropriately manage and control its positions. However, the other mechanisms do not provide similar effects, controls, or documentation.

We recommended that EPA establish an Agency-wide workforce program that includes controls to ensure regular reviews of positions for efficiency, effectiveness, and mission accomplishment. The Agency neither agreed nor disagreed with the recommendation.

(Report No. 11-P-0136, *EPA Needs Better Agency-Wide Controls Over Staff Resources*, February 22, 2011)

## Vapor Intrusion Health Risks May Exist at Bannister Federal Complex

Not all Bannister Federal Complex buildings with underlying or nearby contaminant plumes have been assessed for soil vapor intrusion. As a result, the public health risks in those buildings have not been determined. Although EPA Region 7 conducted its assessment for two buildings at the complex in accordance with EPA-approved procedures, additional actions would provide a more comprehensive picture of the chemical hazards in the indoor air and ground.

Bannister Federal Complex is a 310-acre federal property in Kansas City, Missouri. Several contaminated ground water plumes exist beneath the complex. Both the U.S. General Services Administration and the U.S. Department of Energy control the site. The



Building 50, Bannister Federal Complex.  
(EPA OIG photo)

U.S. General Services Administration OIG is responding to allegations that employees may have become sick due to chemical exposures potentially occurring at the site.

Testing at the Bannister complex in February 2010 showed elevated levels of volatile organic compounds in the soil vapor beneath the foundations of buildings 50 and 52. EPA Region 7 assisted the U.S. General Services Administration in evaluating the vapor intrusion risk for these buildings. Only trichloroethylene vapors were observed to be intruding into building 50 from the ground water. Building 50 contains office space and building 52 has a child care facility.

Region 7 assessed the health risk from inhaling indoor air in the two buildings in accordance with EPA risk assessment procedures. The indoor air chemical concentrations were below acceptable risk levels for short- and long-term exposure for the 14 volatile organic compounds measured and, therefore, are not a health concern. As a precaution, Region 7 recommended and reviewed the installation of soil vapor removal systems in both buildings in February 2010. Testing in March 2010 showed that contaminant levels for soil vapors beneath both buildings and trichloroethylenes levels for the indoor air of building 50 were reduced. Not all of the other Bannister Federal Complex buildings with underlying or nearby contaminant plumes have been assessed for soil vapor intrusion. As a result, the public health risks in those buildings have not been determined.

We recommended that Region 7 test for additional volatile organic compounds for all future air, soil vapor, soil, and ground water samples in and around buildings 50 and 52. We also recommended that Region 7, as part of continuing oversight work, assess the responsible agencies' efforts to fully evaluate the health risks from inhaling potentially contaminated air for all buildings over or within close proximity of contaminated ground

water plumes at the Bannister Federal Complex. Region 7 staff concurred with our recommendations.

*(Report No. 11-P-0048, Vapor Intrusion Health Risks at Bannister Federal Complex Not a Concern for Buildings 50 and 52, Unknown for Other Buildings, January 5, 2011)*

## **EPA Political Appointees Found Not Filtering Freedom of Information Act Requests**

Based on our review conducted in response to a congressional request, we concluded that EPA does not have a process to filter Freedom of Information Act requests by its political appointees.

The Freedom of Information Act gives the public the right to ask for records possessed by federal government agencies. Two members of Congress asked whether and, if so, the extent to which political appointees are made aware of information requests and have a role in request reviews or decisionmaking.

We found that EPA does not have a process to filter Freedom of Information Act requests by political appointees. Under EPA regulations, the head of an office, or that individual's designee, is authorized to grant or deny any request for EPA records. The heads of EPA's 23 major offices are political appointees. EPA policy permits releasing information at the lowest practicable level. Generally, political appointees are not involved in deciding Freedom of Information Act requests, unless there is denial of information. Political appointees were usually only involved in signing denials or partial denials. None of the offices required routine review of Freedom of Information Act requests by a political appointee.

*(Report No. 11-P-0063, Congressionally Requested Inquiry Into EPA's Handling of Freedom of Information Act Requests, January 10, 2011)*

## Grants and Contracts

*Improving EPA's use of  
assistance agreements and contracts*

### EPA Should Add Certifications to Small Business Innovative Research Awards

EPA has many useful certifications and contract clauses for its Small Business Innovative Research solicitation and contract awards, but we found that EPA would benefit from two additional certifications.

The Small Business Innovative Research program provides incentive funding to small businesses to translate their innovative ideas into commercial products that address environmental problems. The Council of Inspectors General for Integrity and Efficiency suggested that a series of certifications be included in Small Business Innovative Research awards government-wide.

Although EPA has certifications and contract clauses that address many of the Council of Inspectors General for Integrity and Efficiency concerns, our review found that EPA would benefit from two additional certifications the council suggested. EPA does not require awardees to submit a certification against false statements when submitting a proposal. EPA also does not require a certification with the final report that addresses, among other items, that the report statements are true and complete. We believe that risks would be significantly mitigated if EPA added these certifications to its Small Business Innovative Research program.

We recommended that EPA add a certification statement to the current requirements that funding applicants must submit prior to award and require funding recipients to submit a certification statement with their final reports. EPA agreed with our recommendations.

*(Report No. 11-N-0199, EPA's Small Business Innovative Research Awards Should Include Additional Certifications to Reduce Risk, March 30, 2011)*

**For details on additional grants/contracts issues, refer to:**

- Page 3, "Equipment Worth \$1.1 Million Seized"
- Page 3, "Company and Principal Debarred"
- Page 3, "Contractor and Two Employees Suspended"
- Page 4, "EPA's Contracts and Grants Workforce May Face Future Workload Issues"
- Page 5, "EPA Should Strengthen Leaking Underground Storage Tank Priority Lists"
- Page 5, "EPA Should Ensure Effective Diesel Emissions Reductions"
- Page 6, "EPA Should Better Document Diesel Emission Reduction Act Grant Project Delays"
- Page 7, "EPA Should Improve Interagency Agreement Processes"
- Page 8, "EPA Can Improve Use of Financial Monitoring Reviews for Superfund Contracts"
- Page 8, "Site Visits of Recovery Act Projects Conducted With Varying Results"
- Page 23, "Grantee Does Not Meet Regulations Requirements for Procurement"
- Page 25, "EPA Region 3 Deobligates \$6.1 Million in Unliquidated Obligations, Escalation Process Cited as a Best Practice"
- Page 33, "Contractor to Repay \$438,790"

## Forensic Audits

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

### **Grantee Does Not Meet Regulations Requirements for Procurement**

An examination of the costs claimed under a cooperative agreement found that the Montana Physical Sciences Foundation, a grantee, does not meet federal regulatory requirements.

EPA awarded cooperative agreement number X83275501 on September 23, 2005, for research into producing biodegradable lubricants and solvents from waste. EPA's contribution to the project was 100 percent of approved costs not to exceed \$770,500.

The Montana Physical Sciences Foundation did not meet Title 40 Code of Federal Regulations Part 30 requirements for procurement. Specifically, the grantee:

- Has an apparent, if not real, conflict of interest with its subcontractor
- Awarded a sole-source subcontract without a documented justification and a cost or price analysis
- Did not amend the sole-source subcontract to cover a major change in project scope and extension of the project period
- Did not include terms in the sole-source subcontract that provide EPA rights to use work funded by the grant

We recommended that EPA disallow and recover \$707,320 in costs claimed for the grantee's subcontract; consider suspension and debarment proceedings against the grantee and its subcontractor; and establish special conditions for future EPA awards. The Agency generally agreed with the findings, but did not comment on the recommendations. The grantee generally disagreed with the findings and recommendations.

*(Report No. 11-4-0013, Examination of Costs Claimed Under EPA Cooperative Agreement X83275501 Awarded to The Montana Physical Sciences Foundation, November 8, 2010)*

**For details on additional forensic audit issues related to the Recovery Act, refer to:**  
• Page 8, "Site Visits of Recovery Act Projects Conducted With Varying Results"

## Financial Management

*Improving the Agency's financial management*

### **EPA Earns Unqualified Opinion on Financial Statements**

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for FYs 2010 and 2009, meaning that they were fairly presented and free of material misstatement. However, we noted four significant deficiencies:

- Further improvements are needed in reviewing the Superfund state contract unearned revenue spreadsheets. Because EPA did not perform thorough reviews, it overstated its FY 2010 fourth quarter Superfund state contract unearned revenue accrual by \$3,630,833 and its unbilled costs by \$858,100.
- EPA should assess collectability of federal receivables and record allowances for doubtful accounts as needed. By not timely reviewing federal debts, assessing the collectability of federal receivables, and establishing a federal allowance for doubtful accounts for uncollectable debt, EPA could be understating the uncollectable debt expense and overstating receivables.
- EPA needs to improve its controls for headquarters personal property. As of May 28, 2010, EPA headquarters could not account for 2,272 accountable personal property items. Through subsequent searches, the number of missing items as of September 30, 2010, fell to 1,134. EPA headquarters determined that the acquisition cost of these missing items is \$2,543,360.
- EPA needs to properly close the Fund Balance with Treasury when cancelling treasury symbols.

Further, we noted one noncompliance issue involving EPA's need to continue efforts to reconcile intragovernmental transactions.

In a memorandum from the Chief Financial Officer received on November 9, 2010, the Agency generally concurred with the issues raised and indicated it will take corrective actions. The Agency did not concur with two of our draft report recommendations, and we modified those recommendations to reflect information provided.

*(Report No. 11-1-0015, Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements, November 15, 2010)*

## **Pesticide Funds Earn Unqualified Opinions**

We rendered unqualified, or clean, opinions on the FYs 2010 and 2009 financial statements for two funds EPA uses to collect fees related to pesticides.

The Pesticide Registration Improvement Act authorized EPA to assess and collect pesticide registration fees to expedite registering certain pesticides; the fees are deposited into the Pesticide Registration Fund. In our opinion, the financial statements for the funds were fairly presented and free of material misstatement. We noted one significant deficiency in internal controls. EPA misapplied federal retirement benefit cost factors in calculating FY 2010 imputed cost related to the Civil Service Retirement System and the Federal Employees Retirement System. Imputed costs are costs that are not fully reimbursed. This significant deficiency resulted in an understatement of \$120,422. The Agency has corrected FY 2010 imputed costs in the fund's financial statements. The Agency was in substantial compliance with the statutory decision timeframes. *(Report No. 11-1-0157, Fiscal Year 2010 and 2009 Financial Statements for the Pesticide Registration Fund, March 10, 2011)*

To expedite reregistering older pesticides against modern health and environmental testing standards, Congress authorized EPA to collect fees from pesticide manufacturers; the fees are deposited into the Pesticides Reregistration and Expedited Processing Fund. In our opinion, the financial statements for the funds were fairly presented and free of material misstatement. We noted one significant deficiency in internal controls. EPA misapplied federal retirement benefit cost factors in calculating FY 2010 imputed cost related to the Civil Service Retirement System and the Federal Employees Retirement System. This \$340,772 understatement is material for the fund and, if not corrected, would result in a qualification of the fund's financial statements. The Agency has corrected FY 2010 imputed costs in the fund's financial statements. The Agency was in compliance with applicable laws and regulations. *(Report No. 11-1-0156, Fiscal Year 2010 and 2009 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund, March 10, 2011)*

## **EPA Region 3 Deobligates \$6.1 Million in Unliquidated Obligations, Escalation Process Cited as a Best Practice**

We identified \$6,130,166 of unneeded funds for three assistance agreements awarded by EPA Region 3 to the District of Columbia, and the region deobligated those funds during the course of the audit.

To achieve clean and safe water goals, EPA provides funds through assistance agreements to states, local governments, and tribes under the water program. Timely review and deobligation of unneeded funds allows these funds to be used on other environmental projects.

An EPA official said the \$6,130,166 in unneeded funds could not be deobligated sooner because of a construction dispute, nonperformance issues, technical issues, or equipment problems. Further, the need to direct resources to projects related to the Recovery Act was also an issue. Because Region 3 deobligated the funds during the course of our audit, we made no recommendations.

#### Sampled assistance agreements with unneeded funds for deobligation

Assistance agreement number	Obligation amount <sup>a</sup>	Unliquidated obligation amount as of 12/07/2009 <sup>b</sup>	Amounts identified for deobligation
FS99381601	\$18,352,503	\$1,462,103	\$341,514
0011002730	22,868,812	5,976,412	5,523,348
C11002734	8,328,608	784,508	265,304
<b>Total</b>	<b>\$49,549,923</b>	<b>\$8,223,023</b>	<b>\$6,130,166</b>

Source: OIG analysis.

<sup>a</sup> Each total obligation amount represents the total funds obligated on the agreement.

<sup>b</sup> Unliquidated obligation amounts represent the unused funds on the agreement.

During our audit, we determined that Region 3's escalation process for addressing project delays should be considered a best practice. While EPA has policies for baseline monitoring of assistance agreements, Region 3 accelerates the award or dispute resolution process, and directly contacts the recipient expressing concerns about lack of progress and requests they perform specific tasks to move the project.

*(Report No. 11-P-0170, EPA Region 3 Reduced Unliquidated Obligations Under Water Program Assistance Agreements, March 15, 2011)*

#### EPA Not Compliant With Circular A-123 Unliquidated Obligation Reviews

Seventeen of 22 EPA regions and program offices did not fully comply with the guidance for conducting and reporting on their FY 2009 Office of Management and Budget (OMB) Circular A-123 reviews of internal controls over the unliquidated obligation review process.

OMB Circular A-123 guidance for implementing the Federal Managers' Financial Integrity Act requires federal agencies to assess internal controls over financial reporting. In FY 2009, EPA expanded its internal control reviews to include unliquidated obligation reviews. The Office of the Chief Financial Officer requested offices to conduct a thorough internal control review of their unliquidated obligation review process. EPA regions and program offices did not fully comply with the guidance because:

- Some regions and program offices did not properly plan and staff the reviews.
- EPA’s Office of the Chief Financial Officer did not closely monitor the reviews.
- Neither the Office of the Chief Financial Officer nor the assistant administrators and regional administrators held the review teams accountable for performing the reviews.

We recommended that the Chief Financial Officer develop procedures to oversee the OMB Circular A-123 unliquidated obligation reviews, develop plans for staffing OMB Circular A-123 unliquidated obligation reviews and training reviewers, and implement performance measures for assurance letters. The Agency concurred with our recommendations.

*(Report No. 11-1-0069, EPA Did Not Fully Comply With Guidance Regarding OMB Circular A-123 Unliquidated Obligation Reviews, January 19, 2011)*

## Risk Assessment and Program Performance

*Improving EPA internal control processes,  
structure, and workforce/manpower*

### **EPA Needs to Strengthen Controls for Determining Workforce Levels**

EPA's policies and procedures do not include a process for determining employment levels based on workload as prescribed by OMB. Further, EPA does not determine the number of positions needed per mission-critical occupation using workforce analysis as required by the Office of Personnel Management.

EPA cannot demonstrate that it has the right number of resources to accomplish its mission. The U.S. Government Accountability Office and EPA OIG have reported instances in which personnel resources were not adequately considered, and consequently, offices encountered delays or did not meet mission requirements. EPA's Human Capital Management Report shows evidence that EPA's work is guided by human capital goals and objectives. However, EPA's Office of Human Resources does not require that workforce planning results link to EPA's strategic and performance goals because the Office of Human Resources has not clearly defined the reporting requirements needed. As a result, there is no assurance that EPA's workforce levels are sufficient to meet the workload of the Agency.

We recommended that EPA's Chief Financial Officer require that the Agency complete a workload analysis for all critical functions to support the Agency's budget request for full-time equivalents. We recommended that the Office of Administration and Resources Management require that program offices and regions provide the number of positions needed for each mission-critical occupation, along with the applicable full-time equivalents associated with each of EPA's strategic goals and program areas. The Office of Administration and Resources Management provided an acceptable corrective action plan. Recommendations to the Office of the Chief Financial Officer are open awaiting completion dates.

*(Report No. 11-P-0031, EPA Needs to Strengthen Internal Controls for Determining Workforce Levels, December 20, 2010)*

## **EPA Should Further Connect National Program Manager Process with Federal Internal Control Guidance**

Making national program offices primarily responsible for internal controls over national programs would streamline reporting and lessen confusion among staff.

The Federal Managers' Financial Integrity Act requires federal agency managers to annually evaluate and indicate whether their agencies' internal controls comply with prescribed standards. National program manager guidance sets forth goals and program priorities to support compliance with the Government Performance and Results Act of 1993.

EPA has not fully integrated the Federal Managers' Financial Integrity Act and the national program manager processes. Activities conducted per the national program manager process support internal controls, but EPA did not start connecting these processes until midway through FY 2009, and integration efforts are still in their infancy. National program managers already conduct many activities related to internal control, yet national program offices have separate processes and staff responsible for each process. Without consistently conducting risk assessments, EPA lacks a sound, documented basis for reasonably assuring that programs implement effective internal controls consistent with federal internal control standards.

We recommended that EPA assign national program managers primary responsibility for Federal Managers' Financial Integrity Act reporting on internal controls for national programs and rely on the lead regional coordinator process for input from the regions, and direct regional personnel to report on administrative and financial internal control activities along with unique geographic and programmatic issues in regional assurance letters. The Agency agreed with our recommendations and began taking steps to address them.

*(Report No. 11-P-0067, EPA Should Further Connect the National Program Manager Process With Federal Guidance on Internal Control Risks, January 18, 2011)*

## Information Resources Management

*Helping the Agency maintain its systems and data*

### Improvements Needed in Replacing Core Financial System

The EPA Office of the Chief Financial Officer's internal control environment does not enforce EPA's system development policies and procedures.

In 1989, EPA implemented the Integrated Financial Management System as its core financial management and budget execution system. In 2001, EPA began the process to replace that system. EPA selected a commercial-off-the-shelf core financial system.

The Office of the Chief Financial Officer's management control processes do not ensure compliance with EPA's Systems Life Cycle Management policies and procedures. The Office of the Chief Financial Officer proceeded with the design subphase of the system project without obtaining executive management approval of the updated system requirements or developing and obtaining the required approval of test plans to ensure the system will meet Agency needs. Further, the Office of the Chief Financial Officer did not predetermine the allowable failure percentages for product acceptance testing, which management would use as the basis for evaluating the product and making a go/no-go decision. These conditions could result in a system that does not meet management's expectations and EPA's needs.

We recommended that EPA develop and implement formal procedures for future projects, and obtain the authorization for any subsequent changes. EPA agreed with the recommendations.

*(Report No. 11-P-0019, Improvements Needed in EPA's Efforts to Replace Its Core Financial System, November 29, 2010)*

### EPA Can Improve Network Traffic Management Practices

Agency network security program deficiencies greatly decrease the likelihood that consistent, repeatable results are produced in identifying threats to the Agency's network, and increase the likelihood that potential threats will not be identified.

EPA spends approximately \$160 million annually to support Agency network operations and infrastructure. As new threats associated with the electronic exchange of information emerge, information security has become a greater concern.

The Office of Environmental Information does not have consistent, repeatable intrusion detection system monitoring practices in place. The office has not documented a methodology to aid in making decisions about potentially unusual network traffic and does not consistently conduct management oversight of contractor performance and reporting. In addition, key federally required security documents for EPA's Wide Area Network were not complete or accurate, the approved security plan had not been updated, and the implemented system changes had never been authorized by management to operate. The Agency cannot accurately depict the operating environment and implement a system that meets federal requirements unless it can ensure that the security plan is complete, accurate, and approved.

We recommended that EPA develop and implement comprehensive log review policies and procedures, establish a management control process to review contractor performance, update and approve the Wide Area Network security plan, and properly certify and accredit future significant Wide Area Network configuration changes prior to moving them into production. The Agency agreed with our recommendations.

*(Report No. 11-P-0159, Improvements Needed in EPA's Network Traffic Management Practices, March 14, 2011)*

## **Data System for Tracking Hazardous Solid Waste Shipments Needs Improvement**

Resource Conservation and Recovery Act Information (RCRAInfo) system data that track hazardous solid waste handlers and the shipment and receipt of hazardous waste contain errors and are missing source documentation. These conditions call into question the quality and reliability of data within the RCRAInfo system, as well as any resulting reporting.

RCRAInfo collects data from states and private companies to track the generation, shipment, and receipt of hazardous solid waste. These data are reported to the public in the *Biennial Hazardous Waste Report* and through the Envirofacts website.

In addition to the errors and missing source documentation, RCRAInfo system owners did not follow the prescribed System Life Cycle Management testing procedures. Further, field work found instances of test data comingled with production data. Overall, the conditions were caused by not having specific data quality procedures, not following System Life Cycle Management procedures, and not adequately communicating with the states.

The contractor that completed this review recommended that EPA implement a procedure for regional personnel to notify a state when changes are made to handler records. The contractor also recommended that guidance and policy be provided on retaining source

documentation, and that control procedures be implemented on updating documentation and on reviewing the production database for test data.

*(Report No. 11-P-0096, EPA Could Improve RCRAInfo Data Quality and System Development, February 7, 2011)*

### **Information Security Progress Made, Further Action Needed**

Our annual review of EPA's implementation of the Federal Information Security Management Act, submitted to OMB, disclosed that the Agency continues to make progress in improving its information technology security. However, further action is needed regarding inactive accounts.

The audit work performed during this review disclosed a significant deficiency that required EPA to take immediate or near-immediate corrective action in establishing and maintaining an account and identity management program for user accounts that reside on the Agency's network. While we found that the Agency took steps to identify inactive network accounts, EPA offices did not take appropriate action to timely disable or terminate the accounts.

*(Report No. 11-P-0017, Fiscal Year 2010 Federal Information Security Management Act Report: Status of EPA's Computer Security Program, November 16, 2010)*

## Investigations *Investigating laboratory fraud, financial fraud, and computer crimes*

### **Contractor to Repay \$438,790**

On October 14, 2010, a Montana contractor entered into an agreement with the U.S. Department of Energy to settle allegations related to the allowability of certain costs. The company will repay \$438,790 over a 2-year period.

The Department of Energy issued the contract and other agencies, such as the EPA, used this contract to have research conducted for their respective agency. In turn, each agency paid the Department of Energy an administrative fee. EPA funds were provided to the Department of Energy through an interagency agreement.

The investigation disclosed that the contractor billed the government for unallowable lobbying costs, trade mission costs, and severance pay.

*This investigation was conducted jointly with the U.S. Department of Energy; the Federal Bureau of Investigation; the U.S. Army Criminal Investigative Command; the U.S. Air Force, Office of Special Investigations; and the Defense Criminal Investigative Service.*

### **Sentencings Continue in Bid Rigging Case at New Jersey Superfund Site**

On March 30, 2011, Zul Tejpar, Vancouver, Canada, was sentenced in U.S. District Court of New Jersey to 3 years probation related to a bid rigging case. In addition, he was ordered to pay a \$15,000 fine and \$300,000 in restitution to EPA. Tejpar was a former Vice President of Business Development for Bennett Environmental, Inc.

Tejpar previously pled guilty to a one-count information, in which he was charged with providing and attempting to provide kickbacks to his co-conspirators at the Federal Creosote Superfund Site in Manville, New Jersey. To date, eight individuals and three companies have pled guilty as part of this investigation into bid rigging. Fines and restitution totaling more than \$3 million have been ordered.

*This case is being conducted with the Internal Revenue Service, Criminal Investigation Division.*

### **Laboratory Co-Owners and Affiliated Companies Debarred**

On February 18, 2011, two individuals and five companies, all of Yuma, Arizona, were each debarred for a period of 3 years related to a case involving fabricated laboratory

documentation. Two laboratory co-owners, Nancy Miller and Richard Miller, were debarred, along with Sunstate Environmental Laboratory; El Prado Water Company; Sunstate Utility Management; Sunstate Environmental Services; and Tierra Mesa Estates Water Company, Inc.

The debarment follows Nancy Miller's conviction and sentencing in April 2010. Miller was the co-owner of Sunstate Environmental Laboratories and performed environmental laboratory testing for drinking water and wastewater analysis. The investigation determined that Miller fabricated laboratory documentation in order to defraud her customers into believing she had reported the analyses correctly. These documents were false in that the laboratory tests were not performed. Sunstate's clients included the U.S. Department of the Interior, the U.S. Army Corps of Engineers, the U.S. Marine Corps, a fast-food restaurant, schools, mobile home parks, and municipalities. Sunstate is no longer a licensed laboratory in the State of Arizona.

**For details on additional investigations related to the Recovery Act, refer to:**

- Page 3, "Equipment Worth \$1.1 Million Seized"
- Page 3, "Company and Principal Debarred"
- Page 3, "Contractor and Two Employees Suspended"

## U.S. Chemical Safety and Hazard Investigation Board

*The U.S. Chemical Safety and Hazard Investigation Board (CSB) was created by the Clean Air Act Amendments of 1990. CSB's mission is to investigate accidental chemical releases at facilities, report to the public on the root causes, and recommend measures to prevent future occurrences.*

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

### **Chemical Safety Board Did Not Take Timely Corrective Action on Prior Audits**

**CSB did not take timely corrective actions to address 34 audit recommendations from three Inspector General offices and the U.S. Government Accountability Office.**

In four instances, it took CSB 4 years beyond the agreed-upon corrective actions date (or report date) to implement corrective actions. CSB's actions to address 13 recommendations were not completely effective and require additional corrective actions, and 7 recommendations are not yet completed.

CSB's control environment and control activities do not ensure accountability. Specifically, CSB's office directors are not accountable for achieving individual and program initiatives leading to chemical accident prevention. In addition, without a clearly defined statutory mandate, CSB will face difficulties in developing outcome-related goals for measuring its impact on chemical accident prevention.

On September 16, 2010, CSB announced an internal reorganization and appointed a managing director who will oversee all aspects of CSB operations. A managing director who ensures accountability should provide for more timely and effective resolution of audit recommendations.

We recommended that the CSB Chairman create a management control plan, take actions to fully address all outstanding audit recommendations, and further improve upon actions taken on previous recommendations. CSB concurred with all of our new recommendations and developed timelines and completion dates for the corrective actions.

*(Report No. 11-P-0115, Chemical Safety and Hazard Investigation Board Did Not Take Effective Corrective Actions on Prior Audit Recommendations, February 15, 2011)*

## **Chemical Safety Board Can Improve Information Security Practices**

CSB has an information security program in place that appears to be functioning as designed. CSB takes information security weaknesses seriously, as 8 of the 10 prior-year recommendations were resolved. However, there are areas in which CSB could improve its vulnerability scanning management process.

The EPA OIG contracted with a firm to perform the FY 2010 Federal Information Security Management Act assessment for CSB. That assessment noted several challenges CSB faces in securing its main information technology system. The assessment found insecure system protocols, default configuration settings, and unpatched network devices, which significantly elevated CSB's risk of system and data compromise by unauthorized users.

The report made various recommendations to correct the deficiencies noted, including consistently performing vulnerability scans and documenting audit log reviews, implementing baseline configurations for network devices, and developing a contingency plan. CSB agreed with the recommendations and provided agreed-upon corrective actions.

*(Report No. 11-P-0148, Evaluation of U.S. Chemical Safety and Hazard Investigation Board's Compliance With the Federal Information Security Management Act (Fiscal Year 2010), March 8, 2011)*

## Other Activities

### Peer Reviews Conducted

The most recent external peer review of the EPA OIG was conducted by the U.S. Department of Homeland Security OIG in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency. The U.S. Department of Homeland Security reviewed our system of quality controls for the period October 1, 2005, through September 30, 2008. The report, issued July 10, 2009, contained no recommendations, and the EPA OIG received a rating of *pass*.

Further, the EPA OIG conducted an external peer review of the system of quality control for the audit organization of Treasury Inspector General for Tax Administration. Our review of that organization covered the period April 1, 2006, through March 31, 2009, and was also completed in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency. Our report, issued February 3, 2010, contained no recommendations and provided the Treasury Inspector General for Tax Administration a rating of *pass*.

### Legislation and Regulations Reviewed

Section 4(a)(2) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operation of EPA and to make recommendations concerning their impact. The primary basis for our comments are the audit, evaluation, investigation, and legislative experiences of the OIG, as well as our participation on the Council of the Inspectors General on Integrity and Efficiency. During the reporting period, we reviewed 82 proposed changes to legislation, regulations, policy, and procedures that could affect EPA and/or the Inspector General, and provided comments on 9. We also reviewed drafts of OMB circulars, memoranda, executive orders, program operations manual, directives, and reorganizations. Details on three items follow.

**S. 3480, *Protecting Cyberspace as a National Asset Act of 2010*.** During the 111th Congress, the OIG submitted comments on S. 3480. We commented that cyber security is a concern that spans the federal government, not just homeland security and intelligence agencies. OIGs should be partners in combating cyber crime because of their authorities under the Inspector General Act of 1978, as amended, and their unique positions within their respective agencies. As drafted, S. 3480 would have established a traditional role for OIGs in cyber security. We commented that, instead, OIGs should have an enhanced oversight role in their agency's cyber security program and should

fully participate in criminal and other investigations of attacks on agency computer systems and programs.

**New Policy Standard and Procedure Documents for Resource Management**

**Directive 2540-02, *Internal Controls*.** EPA’s Office of the Chief Financial Officer proposed new a Policy Standard and Procedure Documents for Resource Management Directive 2540-02, *Internal Controls*. The proposed documents will include a policy standard and policy procedures that assist EPA employees in safeguarding financial transactions in accordance with the standards put forth by OMB. We provided a number of comments to help strengthen and clarify the policy and procedures outlined in these documents, including:

- Identifying additional incompatible functions that prevent adequate separation of duties.
- Making it clearer that the request for waiver to the separation of duties policy is a formal process, and requires a formal, written request for a waiver to the Chief Financial Officer.
- Specifying that the procedures must be followed until the waiver has been granted by the Chief Financial Officer.
- Making it applicable to all system upgrades, not just major upgrades, and to make it clearer that financial management systems include financial and mixed financial systems regardless of whether they are operated by EPA personnel or contractors.

**Draft OMB Guidance on *Effective Measurement and Remediation of Improper Payments*.** OMB asked the Council of Inspectors General on Integrity and Efficiency to comment on its draft guidance on *Effective Measurement and Remediation of Improper Payments*. The guidance implements the requirements of the Improper Payments Elimination and Recovery Act of 2010, which amended the Improper Payments Information Act of 2002 and generally repealed the Recovery Auditing Act. We noted that the definition of a “payment recapture audit program” is integral to the implementation of the law and this guidance, as the law contains specific provisions for how funds collected under a payment recapture audit program can be used. The EPA OIG reviewed EPA’s description of its existing activities under the Improper Payments Elimination and Recovery Act of 2010 that OMB requested the Agency to submit previously. In that document, EPA did not consider activities it performs on contracts and grants that include a review of the allowability of payments or testing of transactions for erroneous payments as “payment recapture audits.” The guidance seemed to imply that such reviews would be part of a payment recapture audit program even though they are not considered payment recapture audits. The guidance should clarify whether “post-award audit” activities are considered part of a payment recapture audit program and should be included when implementing provisions of the Improper Payments Elimination and Recovery Act of 2010 related to disposition of recovered amounts.

## OIG Takes Action to Improve Followup Process

The OIG initiated a followup improvement strategy to examine ways to improve the monitoring, managing, reporting, and implementing of OIG recommendations. OMB Circular A-50 describes audit followup as an integral part of good management and a shared responsibility between Agency management and the OIG. Without attention to needed action on OIG recommendations by both the Agency and the OIG, the value and usefulness of OIG recommendations in achieving savings and cost reductions, eliminating or reducing risk, and promoting EPA's program and operational effectiveness may be lost. Therefore, the OIG reviewed its own internal process and performance in transmitting audit and evaluation recommendations to the Agency for resolution, and in tracking the Agency's progress toward implementing the agreed-to action on recommendations.

As a result of the review, we identified a number opportunities for process and technical improvements to make sure that all OIG recommendations are individually accounted for, directed to the proper Agency action official, and achieve resolution with appropriate corrective action plans. The OIG followup improvement strategy, focusing on both the OIG and Agency responsibilities for effective followup, is resulting in significant progress in increasing the Agency's attention to, and accountability for, completing corrective action on recommendations. Some of the recommended improvements have been taken while others are ongoing. For example, the OIG:

- Designed an automated structure and process to identify and account for individual recommendations and the specific responsible Agency action official.
- Began uploading individual recommendations into the Agency Management Audit Tracking System rather than relying on the Agency audit followup coordinators to type in the recommendations for Agency tracking and action.
- Began issuing a semiannual *Compendium of Unimplemented Recommendations*.
- Clarified confusing terminology and process steps through a revision to the OIG Followup Policy, and developed a brochure and provided training on the process.
- Provided all OIG managers with access to the Management Audit Tracking System so that they could timely monitor progress on recommendations.
- Provided direct links to EPA Manual 2750, *EPA's Audit Management Process*.
- Promoted more comprehensive formal review of corrective actions plans.
- Established a more rigorous and formalized review of Agency requests for and OIG acceptance of extensions in responses to reports and of changes to the corrective action plans.

Additionally, at the OIG's behest, the Agency created an Agency-wide taskforce to review and revise EPA Manual 2750 to promote a better understanding of and compliance with audit management, resolution, and followup activity. The taskforce, led by the Office of the Chief Financial Officer with OIG involvement, expects to complete the revision of the manual by the end of FY 2011.

# Statistical Data

## Profile of Activities and Results

<b>Audit Operations</b> Office of Inspector General Reviews	
October 1, 2010 to March 31, 2011 (\$ in millions)	
Questioned costs *	\$2.8
Recommended efficiencies *	\$7.5
Costs disallowed to be recovered	\$0
Costs disallowed as cost efficiency	\$7.5
Reports issued by OIG	39
Reports resolved (Agreement by Agency officials to take satisfactory corrective actions) **	207

<b>Audit Operations</b> Reviews Performed by Single Audit Act Auditors	
October 1, 2010 to March 31, 2011 (\$ in millions)	
Questioned costs *	\$2.5
Recommended efficiencies *	\$0
Costs disallowed to be recovered	\$0.2
Costs disallowed as cost efficiency	\$0
Single Audit Act reviews	168
Agency recoveries Recoveries from audit and evaluations of current and prior periods (cash collections or offsets to future payments) ***	\$4.3

<b>Investigative Operations</b>	
October 1, 2010 to March 31, 2011 (\$ in millions)	
Total fines and recoveries ****	\$0.754
Cost savings	\$0
Cost avoidances	\$1.372
Cases opened during period	54
Cases closed during period	39
Indictments/informations of persons or firms	9
Convictions of persons or firms	1
Civil judgments/settlements/filings	0

\* Questioned costs and recommended efficiencies are subject to change pending further review in the audit resolution process.

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

\*\*\* Information on recoveries from audit resolutions is provided by EPA's Office of Financial Management and is unaudited.

\*\*\*\* Fines and recoveries that resulted from joint investigations.

## Audit, Inspection, and Evaluation Report Resolution

### Status report on perpetual inventory of reports in resolution process for semiannual period ending March 31, 2011

Report category	No. of reports	Report issuance (\$ in thousands)		Report resolution costs sustained (\$ in thousands)	
		Questioned costs	Recommended efficiencies	To be recovered	As efficiencies
A. For which no management decision was made by October 1, 2010*	95	\$17,255	\$0	\$151	\$0
B. Which were issued during the reporting period	198	5,413	7,530	168	7,530
C. Which were issued during the reporting period that required no resolution	145	0	0	0	0
Subtotals (A + B - C)	148	20,528	7,530	318	7,530
D. For which a management decision was made during the reporting period	207	648	7,530	318	7,530
E. For which no management decision was made by March 31, 2011	86	22,020	0	0	0
F. Reports for which no management decision was made within 6 months of issuance	71	9,103	0	0	0

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

### Status of management decisions on Inspector General reports

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

**Table 1: Inspector General-issued reports with questioned costs for semiannual period ending March 31, 2011 (\$ in thousands)**

Report category	No. of reports	Questioned costs *	Unsupported costs
A. For which no management decision was made by October 1, 2010 **	33	\$17,255	\$12,069
B. New reports issued during period	11	5,413	2,348
Subtotals (A + B)	44	22,668	14,417
C. For which a management decision was made during the reporting period:	12	648	227
(i) Dollar value of disallowed costs	11	319	181
(ii) Dollar value of costs not disallowed	1	329	46
D. For which no management decision was made by March 31, 2011	32	22,020	14,189
Reports for which no management decision was made within 6 months of issuance	21	9,103	5,349

\* Questioned costs include unsupported costs.

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

**Table 2: Inspector General-issued reports with recommendations that funds be put to better use for semiannual period ending March 31, 2011 (\$ in thousands)**

Report category	No. of reports	Dollar value
A. For which no management decision was made by October 1, 2010 *	0	\$0
B. Which were issued during the reporting period	2	7,530
Subtotals (A + B)	2	7,530
C. For which a management decision was made during the reporting period:	2	7,530
(i) Dollar value of recommendations from reports that were agreed to by management	2	7,530
(ii) Dollar value of recommendations from reports that were not agreed to by management	0	0
(iii) Dollar value of nonawards or unsuccessful bidders	0	0
D. For which no management decision was made by March 31, 2011	0	0
Reports for which no management decision was made within 6 months of issuance	0	0

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

**Audits, inspections, and evaluations with no final action as of March 31, 2011, over 365 days past the date of the accepted management decision (including audits, inspections, and evaluations in appeal)**

Audits, inspections, and evaluations	Total	Percentage
Program	51	55
Assistance agreements	20	21
Contract audits	0	0
Single audits	22	24
Financial statement audits	0	0
<b>Total</b>	<b>93</b>	<b>100</b>

## Hotline Activity

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

	<b>Semiannual period (October 1, 2010– March 31, 2011)</b>
<b>Issues open at the beginning of the period</b>	16
<b>Inquiries received during the period</b>	148
<b>Inquiries closed during the period</b>	31
<b>Inquiries pending or open at the end of the period</b>	133
<b>Issues referred to others</b>	
<b>OIG offices</b>	63
<b>EPA program offices</b>	73
<b>Other federal agencies</b>	4
<b>State/local agencies</b>	8
<b>Other/miscellaneous</b>	0

## Summary of Investigative Results

### Summary of investigative activity during reporting period

Cases open as of October 1, 2010	159
Cases opened during period	54
Cases closed during period	39
Cases pending as of March 31, 2011	174

### Investigations pending by type as of March 31, 2011

	Superfund	Management	Split funded	Recovery Act	Chemical Safety Board	Total
Contract fraud	7	10	3	12	0	32
Assistance agreement fraud	1	28	10	16	0	55
Employee integrity	2	29	3	0	0	34
Program integrity	2	14	4	1	1	22
Computer crimes	1	6	2	1	0	10
Other	1	11	2	7	0	21
<b>Total</b>	<b>14</b>	<b>98</b>	<b>24</b>	<b>37</b>	<b>1</b>	<b>174</b>

### Results of prosecutive actions

	EPA OIG only	Joint *	Total
Criminal indictments/informations/complaints	4	5	9
Convictions	0	1	1
Civil judgments/settlements/filings	0	0	0
Fines and recoveries (including civil)	\$0	\$315,000	\$315,000
Prison time	0	0	0
Home detention	0	0	0
Probation	0	36 months	36 months
Community service	0	0	0

\* With another federal agency.

### Administrative actions

	EPA OIG only	Joint *	Total
Suspensions	11	4	15
Debarments	16	6	22
Other administrative actions	8	0	8
<b>Total</b>	<b>35</b>	<b>10</b>	<b>45</b>
<b>Administrative recoveries</b>	<b>\$0</b>	<b>\$438,790</b>	<b>\$438,790</b>
<b>Cost avoidance</b>	<b>\$223,875</b>	<b>\$1,148,842</b>	<b>\$1,372,717</b>

\* With another federal agency.

## Scoreboard of Results

### Scoreboard of OIG performance results for semiannual period ended March 31, 2011, compared to annual performance goal targets

All results reported in FY 2011, from current and prior years' work, are as reported in OIG Performance Measurement and Results System, Inspector General Operations Reporting System, and Inspector General Enterprise Management System. Unaudited.

OIG FY 2011 Government Performance and Results Act annual performance targets compared to first half FY 2011 results	Supporting measures
<b>Goal: Contribute to human health and environmental quality through improved business practices, accountability, and integrity of program operations</b>	
<b>Environmental improvements/actions/changes/improvements in business/systems/efficiency risks reduced or eliminated</b> <b>Target: 334</b> <b>Reported: 156 (47%)</b>	1 Legislative/regulatory changes/decisions 34 Environmental or management policy, process, practice, control change actions taken 9 Best practices implemented 1 Environmental/health improvements 4 Environmental/business risks/challenges eliminated 47 Certifications/validations/verifications/corrections 10 Actions taken or resolved prior to report issuance (not otherwise reported) 50 Recommendations reported as implemented previously identified unimplemented by OIG followup
<b>Environmental and business recommendations, challenges, best practices, risks identified, Recovery Act technical briefings</b> <b>Target: 903</b> <b>Reported: 662 (73%)</b>	235 Recommendations (for Agency/stakeholder action) 4 Critical congressional or public management concerns addressed 1 Best practices identified 21 Referrals for Agency action 7 New environmental or management operational risks or challenges identified 41 Unimplemented recommendations identified 288 Findings without controlled recommendations 66 Awareness briefings/outreach sessions
<b>Return on investment: Potential dollar return as percentage (120%) of OIG budget (\$54.7 million)</b> <b>Target: \$65.6 million</b> <b>Reported: \$14.73 million (22%)</b>	<i>(\$ in millions)</i> \$5.42 Questioned costs (net EPA) \$2.74 Recommended efficiencies, costs saved (EPA)* \$0.75 Fines, recoveries, settlements \$6.13 Monetary actions taken or resolved prior to report issuance
<b>Criminal, civil, and administrative actions reducing risk of loss/operational integrity</b> <b>Target: 80</b> <b>Reported: 42 (52.5%)</b>	1 Criminal convictions 9 Indictments/informations/complaints 45 Administrative actions 0 Civil actions 14 Allegations disproved
<b>Other (no targets established)</b> <b>Sustained monetary recommendations and savings achieved from current and prior periods: \$7.77 million</b> <b>Sustained environmental and management recommendations for resolution action</b> <b>Recovery Act activity results (cumulative)</b> <b>Total reports issued: 220</b>	<i>(\$ in millions)</i> \$0.24 Questioned costs sustained \$7.53 Cost efficiencies sustained or realized 132 Sustained recommendations 143 Recovery Act awareness briefings/outreach sessions (also counted above) 61 Recovery Act complaints received 39 OIG-produced reports 168 Reports by other audit entities with OIG oversight

\* Includes \$1.4 million in savings from investigations.

# Appendices

The Inspector General Act requires a listing, subdivided according to subject matter, of each report issued by the OIG during the reporting period. For each report, where applicable, the Inspector General Act also requires a listing of the dollar value of questioned costs and the dollar value of recommendations that funds be put to better use. This listing includes a section for reports involving the American Recovery and Reinvestment Act of 2009.

Report no.	Report title	Date	Questioned costs			Federal recommended efficiencies
			Ineligible costs	Unsupported costs	Unreasonable costs	
<b>PERFORMANCE REPORTS</b>						
11-P-0001	EPA Lacks Internal Controls to Prevent Misuse of Emergency Drinking Water Facilities	Oct. 12, 2010	\$0	\$0	\$0	\$0
11-P-0010	ENERGY STAR Label Needs to Assure Superior Energy Conservation Performance	Oct. 28, 2010	0	0	0	0
11-P-0029	EPA Needs to Assure Effectiveness of Antimicrobial Pesticide Products	Dec. 25, 2010	0	0	0	0
11-P-0031	EPA Needs to Strengthen Internal Controls for Determining Workforce Levels	Dec. 20, 2010	0	0	0	0
11-P-0034	EPA Should Improve Oversight at Wheeling Disposal Superfund Site in Missouri	Dec. 20, 2010	0	0	0	0
11-P-0048	Vapor Intrusion Health Risks Considered at Bannister Federal Complex	Jan. 1, 2011	0	0	0	0
11-P-0067	EPA Should Further Connect National Program Manager Process with Guidance	Jan. 18, 2011	0	0	0	0
11-P-0115	CSB Did Not Take Effective Actions on Prior Audit Recommendations	Feb. 15, 2011	0	0	0	0
11-P-0136	EPA Needs Better Agency-Wide Controls Over Staff Resources	Feb. 22, 2011	0	0	0	0
11-P-0159	Improvements Needed in EPA's Network Traffic Management Practices	Mar. 14, 2011	0	0	0	0
11-P-0096	EPA Could Improve RCRA Info Data Quality and System Development	Feb. 7, 2010	0	0	0	0
11-P-0002	Website for Coal Combustion Products Partnership Conflicts with Agency Policies	Oct. 13, 2010	0	0	0	0
11-P-0017	FY 2010 FISMA Audit of EPA's Computer Security Program	Nov. 16, 2010	0	0	0	0
11-P-0019	Improvements Needed in EPA's Efforts to Replace Its Core Financial System	Nov. 29, 2010	0	0	0	0
11-P-0063	Congressionally Requested Inquiry into Handling Freedom of Information Act Requests	Jan. 10, 2011	0	0	0	0
11-P-0107	EPA Must Implement Controls to Ensure Proper Investigations at Brownfields Sites	Feb. 14, 2011	2,140,000	0	0	0
11-P-0148	CSB Board Compliance With Federal Information Security Management Act - FY 2010	Mar. 18, 2011	0	0	0	0
11-P-0170	EPA Region 3 Reduced Unliquidated Obligations Under Water Assistance Agreements	Mar. 15, 2011	0	0	0	6,130,116
11-P-0171	EPA Needs an Agency-Wide Plan on Tribal Solid Waste Management	Mar. 21, 2011	0	0	0	0
11-P-0173	EPA Promoted the Use of Coal Ash Products With Incomplete Risk Information	Mar. 23, 2011	0	0	0	0
<b>TOTAL PERFORMANCE REPORTS = 20</b>			<b>\$2,140,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$6,130,116</b>
<b>SINGLE AUDIT REPORTS</b>						
11-3-0003	National Association of State Departments of Agriculture	Oct. 22, 2010	\$0	\$0	\$0	\$0
11-3-0004	Monroe, City of MI FY 2009	Oct. 22, 2010	0	0	0	0
11-3-0007	Research Triangle Institute FY 2009	Oct. 26, 2010	0	0	0	0
11-3-0008	Soboba Band of Luiseno Indians FY 2008	Oct. 26, 2010	0	0	0	0
11-3-0009	Elko Band Council FY 2008	Oct. 26, 2010	37,649	0	0	0
11-3-0011	Snoqualmie Indian Tribe FY 2007	Oct. 27, 2010	6,499	4,304	0	0
11-3-0012	Lovelace Respiratory Research Institute FY 2009	Oct. 27, 2010	0	0	0	0
11-3-0020	Nassau - County of - FY 2009	Nov. 30, 2010	0	0	0	0
11-3-0021	Mason City - City of FY 2009	Nov. 30, 2010	0	0	0	0
11-3-0022	United States Virgin Islands - Government of - FY 2007	Dec. 1, 2010	0	1,146,011	0	0
11-3-0023	Meyersdale - Borough of - FY 2009	Dec. 2, 2010	0	0	0	0
11-3-0024	Volant - Borough of - FY 2009	Dec. 3, 2010	0	0	0	0
11-3-0025	Asbury Park - City of - FY 2009	Dec. 3, 2010	0	0	0	0
11-3-0026	Alliance for the Chesapeake Bay FY 2009	Dec. 3, 2010	0	0	0	0
11-3-0027	Bernalillo County of FY 2009	Dec. 6, 2010	0	0	0	0
11-3-0028	Logistics Management Institute - FY 2009	Dec. 14, 2010	0	0	0	0
11-3-0030	The Metropolitan District - FY 2009	Dec. 20, 2010	0	0	0	0
11-3-0032	Gwinett County Government FY 2009	Dec. 20, 2010	0	0	0	0
11-3-0033	Cresson - The Municipal Authority of the Borough of FY 2009	Dec. 20, 2010	0	0	0	0
11-3-0035	Sullivan - County of FY 2009	Dec. 20, 2010	0	0	0	0
11-3-0036	Independence-Cross Creek Joint Sewer Authority FY 2009	Dec. 21, 2010	0	0	0	0
11-3-0037	Upper Pottsgrove Township - FY 2009	Dec. 21, 2010	0	0	0	0
11-3-0038	United States Virgin Islands - Government of - FY 2008	Dec. 21, 2010	6,165	148,393	0	0
11-3-0039	West Milford Municipal Utilities Authority FY 2010	Dec. 21, 2010	0	0	0	0
11-3-0040	Dawson Springs Municipal Waterworks and Sewer System FY 2010	Dec. 28, 2010	0	0	0	0
11-3-0041	Sopchoppy - City of FY 2009	Dec. 28, 2010	0	0	0	0
11-3-0042	Grand Ridge Town of FY 2009	Dec. 28, 2010	0	0	0	0
11-3-0043	Statington Borough Authority FY 2010	Dec. 28, 2010	0	0	0	0
11-3-0044	Redbank Valley Municipal Authority FY 2009	Dec. 28, 2010	0	0	0	0
11-3-0045	Johnsonburg Municipal Authority FY 2009	Dec. 28, 2010	0	0	0	0
11-4-0046	Carrabelle - City of FY 2009	Jan. 4, 2011	0	0	0	0
11-3-0047	Massachusetts Water Pollution Abatement Trust FY 2009	Jan. 4, 2011	0	0	0	0
11-3-0049	Niles - City of FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0050	Green Bay Metropolitan Sewerage District FY 2009	Jan. 6, 2011	0	0	0	0

Report no.	Report title	Date	Questioned costs			Federal recommended efficiencies
			Ineligible costs	Unsupported costs	Unreasonable costs	
11-3-0051	Otter Lake Water Commission FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0052	Auburn Hills - City of FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0053	Swanville - City of FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0054	Harvard University FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0055	Brownstown - Charter Township of FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0056	Clearwater - City of FY 2009	Jan. 6, 2011	0	0	0	0
11-3-0057	Kandiyohi - City of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0058	Ladoga - Town of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0059	Fountain - City of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0060	Lansing - Charter Township of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0061	Whitewater - City of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0062	Walton - Town of FY 2009	Jan. 7, 2011	0	0	0	0
11-3-0064	Kentucky Infrastructure Authority FY 2010	Jan. 12, 2011	0	0	0	0
11-3-0065	Algoma Sanitary District No.1 FY 2009	Jan. 13, 2011	0	0	0	0
11-3-0065	Hurley - City of FY 2009	Jan. 14, 2011	0	0	0	0
11-3-0068	Two Harbors - City of FY 2009	Jan. 19, 2011	0	0	0	0
11-3-0070	Burlington City of IA FY 2009	Jan. 20, 2011	0	0	0	0
11-3-0071	Red Cliff Band of Lake Superior Chippewas FY 2008	Jan. 20, 2011	110,005	0	0	0
11-3-0072	Danville Fire District #1 - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0073	Irasburg Fire District #1 - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0074	Broad Top City Water Authority - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0075	East Penn Township - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0076	Verndale - City of FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0077	Howard Lake - City of FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0078	Gering City of - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0079	Widefield Water and Sanitation District - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0080	Hot Sulphur Springs Town of - FY 2009	Jan. 24, 2011	0	0	0	0
11-3-0084	Colorado City Metropolitan District - FY 2009	Feb. 2, 2011	0	0	0	0
11-3-0085	Mountain Regional Water Special Service District - FY 2009	Feb. 2, 2011	0	0	0	0
11-3-0086	Port Huron - City of FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0087	Brainerd -City of FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0088	Lake County FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0089	Fontana-on-Geneva Lake - Village of FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0090	Mechanicsburg Buffalo Water Commission FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0091	Dousman - Village of FY 2009	Feb. 3, 2011	0	0	0	0
11-3-0092	Utah State of FY 2010	Feb. 4, 2011	0	0	0	0
11-3-0093	Fairfax County of VA FY 2010	Feb. 4, 2011	0	0	0	0
11-3-0094	Grand Rapids Public Utilities Commission FY 2009	Feb. 4, 2011	0	0	0	0
11-3-0095	Jackson County Water Utility, Inc. - FY 2009	Feb. 4, 2011	0	0	0	0
11-3-0097	Trempealeau - Vilage of FY 2009	Feb. 7, 2011	0	0	0	0
11-3-0098	Red Lake Falls City of - FY 2009	Feb. 8, 2011	0	0	0	0
11-3-0099	Fairfax County FY 2009	Feb. 9, 2011	0	0	0	0
11-3-0100	Clarksburg WV FY 2009	Feb. 9, 2011	0	0	0	0
11-3-0101	Beaver Dam - City of FY 2009	Feb. 9, 2011	0	0	0	0
11-3-0102	Evansville - City of FY 2009	Feb. 10, 2011	0	0	0	0
11-3-0103	Colby - City of FY 2009	Feb. 10, 2011	0	0	0	0
11-3-0104	Dekalb Sanitary District FY 2010	Feb. 10, 2011	0	0	0	0
11-3-0105	Germantown - Village of FY 2009	Feb. 10, 2011	0	0	0	0
11-3-0106	Lathrup - Village of FY 2010	Feb. 10, 2011	0	0	0	0
11-3-0108	Marinette - City of FY 2009	Feb. 14, 2011	0	0	0	0
11-3-0109	Loyal - City of FY 2009	Feb. 14, 2011	0	0	0	0
11-3-0110	Metro East Sanitary District FY 2010	Feb. 14, 2011	0	0	0	0
11-3-0111	Milwaukee City of - FY 2009	Feb. 14, 2011	0	0	0	0
11-3-0112	New York Mills - City of FY 2009	Feb. 14, 2011	0	0	0	0
11-3-0113	Oronoco - City of FY 2009	Feb. 14, 2011	0	0	0	0
11-3-0114	Richmond - City of FY 2010	Feb. 14, 2011	0	0	0	0
11-3-0116	Elkton MD - FY 2009	Feb. 15, 2011	0	0	0	0
11-3-0117	Frankfort KY - FY 2009	Feb. 15, 2011	0	0	0	0
11-3-0118	Spring Valley - City of FY 2010	Feb. 15, 2011	0	0	0	0
11-3-0119	Sleepy Eye City of - FY 2009	Feb. 15, 2011	0	0	0	0
11-3-0120	Rock River Water Reclamation District FY 2010	Feb. 15, 2011	0	0	0	0
11-3-0121	Saint Peter - City of FY 2009	Feb. 15, 2011	0	0	0	0
11-3-0122	St. Hilaire - City of FY 2009	Feb. 17, 2011	0	0	0	0
11-3-0123	Sycamore - City of FY 2010	Feb. 17, 2011	0	0	0	0
11-3-0124	Olympia City of - FY 2009	Feb. 17, 2011	0	0	0	0
11-3-0125	North Pole City of - FY 2009	Feb. 17, 2011	0	0	0	0
11-3-0126	Snohomish County Startup Water District - FY 2009	Feb. 17, 2011	0	0	0	0
11-3-0127	Elk Point City of - FY 2009	Feb. 17, 2011	0	0	0	0
11-3-0128	Upper Blackstone Water Pollution Abatement District FY 2010	Feb. 17, 2011	0	0	0	0
11-3-0129	Milton - Town of FY 2010	Feb. 17, 2011	0	0	0	0
11-3-0130	Pompton Lakes Borough Municipal Utilities Authority FY 2010	Feb. 17, 2011	0	0	0	0
11-3-0131	Smyth County VA FY 2009	Feb. 18, 2011	0	0	0	0
11-3-0132	Evesham Municipal Utilities Authority FY 2010	Feb. 18, 2011	0	0	0	0
11-3-0133	Redbank Valley Municipal Authority FY 2010	Feb. 18, 2011	0	0	0	0
11-3-0134	WilliamSPORT - Town of FY 2010	Feb. 18, 2011	0	0	0	0
11-3-0135	New Market - Town of FY 2010	Feb. 18, 2011	0	0	0	0

Report no.	Report title	Date	Questioned costs			Federal recommended efficiencies
			Ineligible costs	Unsupported costs	Unreasonable costs	
11-3-0137	Richlands - Town of FY 2010	Feb. 28, 2011	0	0	0	0
11-3-0138	Pennsylvania Environmental Council Inc and Affiliated Entities FY 2010	Feb. 28, 2011	0	0	0	0
11-3-0139	Buffalo Sewer Authority FY 2010	Feb. 28, 2011	0	0	0	0
11-3-0140	Delano City of - FY 2009	Feb. 28, 2011	0	0	0	0
11-3-0142	Grace Hill Settlement House FY 2009	Mar. 4, 2011	0	456,940	0	0
11-3-0143	Selma - Town of FY 2010	Mar. 7, 2011	0	0	0	0
11-3-0144	Harris County Water Control and Improvement District No. 36 FY 2010	Mar. 7, 2011	0	0	0	0
11-3-0145	Morgan City-City of FY2009	Mar. 7, 2011	0	0	0	0
11-3-0146	Gardner Community Water Association Inc. FY 2010	Mar. 7, 2011	0	0	0	0
11-3-0147	Alaska Rural Water Association FY 2009	Mar. 7, 2011	0	0	0	0
11-3-0149	National Council on Aging - FY 2009	Mar. 7, 2011	0	0	0	0
11-3-0150	Summit Lake Paiute Tribe FY 2008	Mar. 9, 2011	0	291,097	0	0
11-3-0151	Summit Lake Paiute Tribe FY 2009	Mar. 9, 2011	0	301,113	0	0
11-3-0152	Madison County Industrial Development and Building Authority FY 2009	Mar. 10, 2011	0	0	0	0
11-3-0153	Renewable Water Resources FY 2010	Mar. 10, 2011	0	0	0	0
11-3-0154	Pulaski County School District FY 2010	Mar. 10, 2011	0	0	0	0
11-3-0155	Grand Strand Water and Sewer Authority FY 2010	Mar. 10, 2011	0	0	0	0
11-3-0158	Alaska Rural Water Association FY 2009	Mar. 11, 2011	0	0	0	0
11-3-0160	Millsboro - Town of FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0161	La Plata - Town of FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0162	Clay County FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0163	Warsaw - City of FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0164	Pitt County Board of Education FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0165	Farmville - Town of FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0166	Maggie Valley Sanitary District FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0167	Florida Rural Water Association Inc. FY 2010	Mar. 14, 2011	0	0	0	0
11-3-0168	Jefferson County Commission - FY 2007	Mar. 14, 2011	0	0	0	0
11-3-0169	Grove-City of	Mar. 14, 2011	0	0	0	0
11-3-0174	Big Lake, City of FY 2009	Mar. 23, 2011	0	0	0	0
11-3-0175	Center Line, City of FY 2009	Mar. 23, 2011	0	0	0	0
11-3-0176	Chicago Metropolitan Agency for Planning FY 2010	Mar. 24, 2011	0	0	0	0
11-3-0177	Decatur - City of FY 2010	Mar. 24, 2011	0	0	0	0
11-3-0178	East Chicago - City of FY 2009	Mar. 24, 2011	0	0	0	0
11-3-0180	Cocoa-City of FY 2009	Mar. 28, 2011	0	0	0	0
11-3-0181	Dorchester County Sanitary District	Mar. 28, 2011	0	0	0	0
11-3-0182	Millstadt-Village of	Mar. 28, 2011	0	0	0	0
11-3-0183	Buffalo Island Regional Water District FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0184	Eagle Mountain City FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0185	Park County FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0186	Daniel-Town of FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0187	Riverton-City of FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0188	Flagg Creek Water Reclamation District FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0189	Lenawee Intermediate School District FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0190	Buchanan-City of FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0191	Pecatonica-Village of FY 2010	Mar. 28, 2011	0	0	0	0
11-3-0194	Decatur - Sanitary District of FY 2010	Mar. 29, 2011	0	0	0	0
11-3-0195	Stevens Point FY 2009	Mar. 29, 2011	0	0	0	0
11-3-0196	Thomaston - City of FY 2010	Mar. 29, 2011	0	0	0	0
11-3-0197	Yorkville-Bristol Sanitary District FY 2010	Mar. 29, 2011	0	0	0	0
11-3-0198	Willmar - City of FY 2009	Mar. 29, 2011	0	0	0	0
11-3-0200	Fountain Water District FY 2011	Mar. 30, 2011	0	0	0	0
11-3-0201	Frankfort - Village of FY 2010	Mar. 30, 2011	0	0	0	0
11-3-0202	Fenton - City of FY 2010	Mar. 31, 2011	0	0	0	0
11-3-0203	Hoffman - City of FY 2009	Mar. 31, 2011	0	0	0	0
11-3-0204	Hamburg-Township of FY 2010	Mar. 31, 2011	0	0	0	0
11-3-0205	South Lyons Township Sanitary District FY 2010	Mar. 31, 2011	0	0	0	0
11-3-0206	Neenah-City of FY 2009	Mar. 31, 2011	0	0	0	0
11-3-0207	Wheaton-City of FY 2009	Mar. 31, 2011	0	0	0	0
<b>TOTAL SINGLE AUDIT REPORTS = 168</b>			<b>\$160,318</b>	<b>\$2,347,858</b>	<b>\$0</b>	<b>\$0</b>
<b>CONTRACTS</b>						
11-4-0013	Costs Claimed Under Agreement for Montana Physical Sciences Foundation	Nov. 8, 2010	\$707,320	\$0	\$0	\$0
<b>TOTAL CONTRACT REPORTS = 1</b>			<b>\$707,320</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>FINANCIAL STATEMENT REPORTS</b>						
11-1-0015	Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements	Nov. 15, 2010	\$0	\$0	\$0	\$1,400,000
11-1-0069	EPA Did Not Fully Comply With Guidance Regarding Unliquidated Obligation Review	Jan. 19, 2011	0	0	0	0
11-1-0156	Fiscal Year 2010 and 2009 Financial Statements for FIFRA Fund	Mar. 10, 2011	0	0	0	0
11-1-0157	Fiscal Year 2010 and 2009 Financial Statements for PRIA Fund	Mar. 10, 2011	0	0	0	0
<b>TOTAL FINANCIAL STATEMENT REPORTS = 4</b>			<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,400,000</b>
<b>AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 REPORTS</b>						
11-R-0005	Recovery Act Staffing and Qualifications	Oct. 25, 2010	\$0	\$0	\$0	\$0
11-R-0014	Site Inspection of Sewer Pump Station Rehabilitation and Improvements, Ball, LA	Nov. 09, 2010	0	0	0	0
11-R-0016	Terms and Conditions to Award Interagency Agreements Need Improvement	Nov. 16, 2010	0	0	0	0
11-R-0018	Leaking Underground Storage Tank Grants Priority Lists Need More Oversight	Nov. 22, 2010	0	0	0	0

Report no.	Report title	Date	Questioned costs			Federal recommended efficiencies
			Ineligible costs	Unsupported costs	Unreasonable costs	
11-R-0081	EPA Can Improve the Use of Financial Monitoring Reviews	Jan. 31, 2011	0	0	0	0
11-R-0082	Site Inspection of the Clean Water State Revolving Fund Projects, Long Beach, CA	Feb. 1, 2011	0	0	0	0
11-R-0083	Site Inspection of Sewer System Improvement Projects, Parma, OH	Feb. 2, 2011	0	0	0	0
11-R-0141	EPA Should Improve Guidance, Oversight for Diesel Emissions Reduction Act Activities	Mar. 1, 2011	0	0	0	0
11-R-0172	Site Visit of the Denver Street Storage Project, Astoria, OR	Mar. 22, 2011	0	0	\$57,346	0
11-R-0179	EPA Needs to Better Document Delays for Diesel Emission Reduction Act Grants	Mar. 28, 2011	0	0	0	0
11-R-0192	Site Visit of Comprehensive Sewer System Rehabilitation Project, Saugus MA	Mar. 29, 2011	0	0	0	0
11-R-0193	Site Visit Water System Improvement Project, Waleska GA	Mar. 29, 2011	0	0	0	0
	<b>TOTAL AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 REPORTS = 12</b>		<b>\$0</b>	<b>\$0</b>	<b>\$57,346</b>	<b>\$0</b>
<b>OTHER REPORTS</b>						
11-N-0006	Compendium of Unimplemented Recommendations - September 30, 2010	Oct. 26, 2010	\$0	\$0	\$0	\$0
11-N-0199	EPA's Small Business Innovative Research Awards Need Additional Certifications	Mar. 30, 2011	0	0	0	0
	<b>TOTAL OTHER REPORTS = 2</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
	<b>TOTAL REPORTS ISSUED = 207</b>		<b>\$3,007,638</b>	<b>\$2,347,858</b>	<b>\$57,346</b>	<b>\$7,530,116</b>

## Appendix 2—Reports Issued Without Management Decisions

### For Reporting Period Ended March 31, 2011

The Inspector General Act requires a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period, an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report. OMB Circular A-50 requires resolution within 6 months of a final report being issued. In this section, we report on audits with no management decision or resolution within 6 months of final report issuance. In the summaries below, we note the Agency's explanation of the reasons a management decision has not been made, the Agency's desired timetable for achieving a management decision, and the OIG followup status as of March 31, 2011.

#### Office of Administration and Resources Management

##### **Report No. 10-P-0112, Results of Hotline Complaint Review of EPA Region 9 Hiring under the Federal Career Intern Program, April 26, 2010**

*Summary:* The Hotline allegations against EPA, Region 9 were unsubstantiated. We identified that the region engaged in a prohibited personnel practice. Neither the Office of Personnel Management nor EPA prohibits the use of a job fair and registration code as recruiting and hiring methods. However, Region 9 engaged in a prohibited personnel practice by giving four Federal Career Intern Program job fair participants improper advantages not provided to others attending the job fair.

*Agency Explanation:* As of February 23, 2011, the Office of Administration and Resources Management is preparing a formal memorandum to the OIG to request the closeout of this audit.

*OIG Followup Status:* Incomplete response.

##### **Report No. 10-P-0177, EPA's Revised Hiring Process Needs Additional Improvements, August 9, 2010**

*Summary:* Our analysis of EPA's appointment process managed by the Office of Administration and Resources Management identified that EPA had not implemented critical technology upgrades or obtained other resources necessary for the service center concept to succeed. EPA produced three reports, including its 2007 Business Case, which identified key factors for a successful transition to the service center concept. However, EPA management implemented the transition without obtaining some of these key capabilities, including electronic infrastructure.

*Agency Explanation:* The corrective action plan was forwarded to the OIG on December 10, 2010. The Agency is currently waiting for the OIG's acceptance of the corrective action plan and OIG closure of the audit.

*OIG Followup Status:* No response.

#### Office of Air and Radiation

##### **Report No. 04-P-00033, Effectiveness of Strategies to Reduce Ozone Precursors, September 29, 2004**

*Summary:* Our analysis of EPA emissions data for "serious," "severe," and "extreme" ozone nonattainment areas indicated that some major metropolitan areas may not have achieved the required 3 percent annual emission reductions in ozone precursor emissions. While EPA air trends reports have emphasized that ozone levels are declining nationally and regionally, only 5 of 25 nonattainment areas designated serious to extreme had substantial downward trends. EPA provided an action plan to the OIG that provided a partial list of actions planned, and we closed 8 of the 25 recommendations. We believed that we may have been able to close six recommendations once the final Milestone Compliance Demonstration rule was promulgated. However, in May 2006, EPA told us it had decided not to issue the rule; it instead planned to issue guidance that EPA regions could share with states. We did not agree that guidance is an acceptable alternative. As of September 12, 2008, the Agency had not agreed with the other recommendations and had not submitted a complete response that addresses all the recommendations in the report. We will continue to follow up on the Agency's actions.

*Agency Explanation:* EPA continues to disagree with the OIG recommendation to issue a Milestone Compliance Demonstration Rule. EPA has agreed to reconsider the recommendation after reconsideration of the Ozone Standard is completed. Resolution expected by December 2011.

*OIG Followup Status:* Incomplete response.

**Report No. 08-P-0020, Maximum Achievable Control Technology Implementation Progress and Challenges, October 31, 2007**

*Summary:* EPA's National Emissions Inventory data indicate an overall decline in air toxic emissions concurrent with implementation of the maximum achievable control technology standards. EPA plans to use National Emissions Inventory data to assess the public health risk remaining from maximum achievable control technology sources of air toxics emissions, but the reliability of data for site-specific emissions varies considerably. EPA has not established objectives that define an acceptable level of quality for National Emissions Inventory data used in the residual risk process. EPA guidance recommends that program offices develop data quality objectives for using data in such decisionmaking processes. Given the uncertainties associated with National Emissions Inventory data, EPA could over- or underestimate the public health risk from maximum achievable control technology sources of emissions. Overstating risk could result in EPA placing regulations on industries that are not cost beneficial. Conversely, understating risk could result in EPA not requiring regulations where needed to protect public health. The Agency has agreed with the first recommendation in our audit report and provided acceptable milestones dates for its implementation. The Agency has not agreed to establish the recommended state reporting requirements, and we consider the issue unresolved.

*Agency Explanation:* On February 14, 2011, the OIG requested clarification of the EPA's action plan timeline. EPA response to the OIG is due in late April. Estimated completion date is December 2011.

*OIG Followup Status:* Incomplete response.

**Report No. 09-P-00125, Effect of Efforts to Address Air Emissions at Selected Ports, March 23, 2009**

*Summary:* While EPA has issued air emissions regulations for most port sources, EPA's actions to address air emissions from large oceangoing vessels in U.S. ports have not yet achieved the goals for protecting human health. The Clean Air Act provides EPA with the authority to regulate emissions from oceangoing vessel engines. EPA has deferred taking a position on whether it has authority to regulate emissions from foreign-flagged vessels, which account for about 90 percent of U.S. port calls. We recommended that EPA assess its authorities and responsibilities under the Clean Air Act to regulate air emissions from foreign-flagged vessels in U.S. ports, and report any shortfalls to Congress. In its 90-day response, EPA said it would describe the legal analyses of stakeholders regarding this issue and make the description available to Congress through the preamble to a proposed rule for new Category 3 marine diesel engines. However, describing the legal analyses of others does not meet the intent of our recommendation. We recommended that EPA assess its authorities and responsibilities under the Clean Air Act to regulate air emissions from foreign-flagged vessels in U.S. ports and report any shortfalls to Congress, but EPA's comments were not responsive. We also recommended that EPA revise its ports strategy to include a transformation plan, but EPA did not agree with that recommendation.

*Agency Explanation:* The Office of Air and Radiation sent a memorandum (dated March 19, 2010) to the OIG outlining actions that will address all open corrective actions. EPA is leaving the first recommendation open pending further discussion with the OIG.

*OIG Followup Status:* Incomplete response.

**Report No. 09-P-0151, EPA Does Not Provide Oversight of Radon Testing Accuracy and Reliability, May 12, 2009**

*Summary:* EPA does not perform oversight of radon testing device accuracy or reliability. The 1988 Indoor Radon Abatement Act required that EPA establish proficiency programs for firms offering radon-related services, including testing and mitigation. EPA established and operated proficiency programs until 1998, when it disinvested in these programs. EPA asserts that it shares oversight responsibility with states and industry, including the two national proficiency programs operating under private auspices. However, without oversight, EPA cannot assure that radon testing devices provide accurate data on indoor radon risks or that radon testing laboratories accurately analyze and report radon results. We recommended that EPA disclose that while radon testing is recommended, EPA cannot provide assurance that commercially available radon testing devices or testing laboratories are accurate and reliable. EPA generally agreed with this recommendation and stated that it will review and revise both its Web-based and

printed public materials, as appropriate. However, the Agency did not provide information on how it intends to characterize the accuracy and reliability of radon testing in its public documents, and more information is needed.

*Agency Explanation:* EPA has undertaken studies to obtain additional information related to the accuracy and reliability of test devices. This effort is expected to be complete by spring 2011 when appropriate updates to the documents will also be completed. The Office of Air and Radiation continues to negotiate with the OIG on the recommendation and is preparing a memorandum to outline actions and proposed dates for addressing the recommendation.

*OIG Followup Status:* Incomplete response.

#### **Financial Analysis and Rate Negotiation Service Center**

##### **Report No. 04-1-00099, Lockheed Martin Services Group—FYE 12/31/2002 Incurred Cost, August 23, 2004**

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

*Agency Explanation:* Resolution on hold due to other cognizant federal agency (U.S. Department of Defense).

*OIG Followup Status:* Resolution pending receipt of additional information.

##### **Report No. 06-4-00120, National Academy of Sciences—FY 2006 Info Tech System, July 20, 2006**

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

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

*OIG Followup Status:* Resolution pending receipt of additional information.

##### **Report No. 06-4-00165, National Academy of Sciences—FY 2006 Indirect/Other Direct Costs System, September 27, 2006**

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

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

*OIG Followup Status:* Resolution pending receipt of additional information.

##### **Report No. 06-4-00169, National Academy of Sciences—FY 2006 Labor System, September 29, 2006**

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

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

*OIG Followup Status:* Resolution pending receipt of additional information.

##### **Report No. 07-1-00016, URS Corporation (c/o URS Greiner, Inc.)—FY2001 Incurred Cost, November 13, 2006**

*Summary:* DCAA questioned a total of \$188,772,784 in direct and indirect costs. Of these, \$5,585,929 are claimed direct costs, of which \$1,328,189 are from EPA Contract No. 68- W9-8225. The questioned indirect expenses impacted all fringe, overhead, and general and administrative rates. Of the questioned indirect costs, EPA's share is \$401,412, for a total of \$1,729,601 in questioned direct and indirect costs.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 07-1-00061, Lockheed Martin Services Group—FY 12/31/2004 I/C, April 10, 2007**

*Summary:* DCAA questioned \$34,708,911 in claimed direct costs and proposed indirect costs. Further, DCAA did not audit \$338,864,655 in claimed direct and indirect costs for assist audits not yet received or for received assist audit reports, the impact of which on the contractor's cost objectives has not yet been calculated. Additionally, DCAA upwardly adjusted \$48,224,805 in claimed base costs. EPA's share of the questioned costs totals \$694,178. DCAA did not provide any Cumulative Allowable Cost Work Sheet or Schedule of Allowable Costs by Cost Element by Contract because the most current year with negotiated indirect rates is calendar year 1998. DCAA will issue a supplemental audit report upon completion of its analysis of the assist audit results, and as the outstanding fiscal years' indirect rates are negotiated, the requested Cumulative Allowable Cost Work Sheet and Schedule of Allowable Costs by Cost Element by Contract will be provided.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 07-4-00058, Science Applications Intl. Corporation—Companies 1, 6, and 9—FY 2006 Floorchecks, April 30, 2007**

*Summary:* On September 25, 2006, DCAA determined that the floorchecks disclosed no significant deficiencies in the contractor's timekeeping or labor system in FY 2005. DCAA did not express an opinion on the adequacy of the contractor's labor accounting system taken as a whole. On February 27, 2007, DCAA determined that certain labor practices require corrective actions to improve the reliability of the contractor's labor accounting system. DCAA did not express an opinion on the adequacy of the contractor's labor accounting system taken as a whole.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 07-1-00079, Science Applications Intl. Corporation—FYE 1/31/2005 I/C, July 18, 2007**

*Summary:* DCAA submitted three audit reports under this assignment. DCAA accepted the claimed direct costs at Companies 1 and 6 (there are no claimed direct costs at Company 9) and questioned proposed indirect costs and rates at Companies 1, 6, and 9. DCAA questioned a total of \$17,224,585 of Company 9's claimed indirect expenses (\$9,938,874) and fringe benefit costs and rates (\$7,285,711), of which \$7,762,651 was allocated to other companies that do not perform government work. Questioned indirect costs of \$3,525,230 and \$4,552,250 were allocated to and questioned in the claimed general and administrative costs and rates of Companies 1 and 6, respectively. The questioned fringe benefit rates in Company 9 resulted in questioned fringe benefit costs of \$865,365 and \$519,089 for Companies 1 and 6, respectively. DCAA questioned an additional \$1,995,869 of Company 1 claimed indirect expenses, and an additional \$511,822 of Company 6 claimed indirect expenses. Total questioned costs in Companies 1 and 6 are \$11,969,625, of which \$119,696 is applicable to EPA contracts.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 07-1-00080, Lockheed Martin Services, Inc.—FY 2005 Incurred Cost, August 6, 2007**

*Summary:* DCAA questioned \$595,792,539 in claimed direct costs and \$10,982,460 in proposed indirect costs and rates. None of the questioned direct costs are chargeable to any of the EPA contracts. A number of the EPA contracts have indirect ceiling rates that are lower than the contractor's proposed indirect rates, and are not impacted by the questioned indirect expenses and rates. However, there are EPA contract/subcontracts that do not have indirect ceiling rates and are impacted by the questioned indirect rates. EPA's share of questioned indirect costs totals \$133,069.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 07-4-00080, National Academy of Sciences—FY 2006 Budget System, September 26, 2007**

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

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 08-4-0002, Science Applications Intl. Corp—Company 1 Compensation Followup, October 2, 2007**

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

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 08-1-00114, Weston Solutions Inc.—FY 12/31/2004 Incurred Cost, March 24, 2008**

*Summary:* DCAA determined that the contractor's claimed direct costs are acceptable; however, DCAA questioned \$2,082,837 in proposed indirect costs and rates. Further, DCAA applied penalties in accordance with Federal Acquisition Regulation 42.709, and identified expressly unallowable costs subject to penalty that had been allocated to various contracts specified in Federal Acquisition Regulation 42.709(b), including 11 EPA contracts. Of the questioned costs, EPA's total share of questioned costs is \$197,869, of which \$164,163 is questioned overhead costs and \$33,706 is the questioned general and administrative costs.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 08-1-00131, Washington Group International, Inc.—FY 2001 Incurred Costs, April 15, 2008**

*Summary:* DCAA questioned \$2,208,686 of claimed direct costs and \$13,757,945 of proposed indirect costs and rates, a total of \$15,966,631. EPA's share of the questioned costs is \$44,648.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 08-1-0130, Morrison Knudsen Corporation—FY 1999 Incurred Costs, April 15, 2008**

*Summary:* DCAA questioned \$3,705,233 in claimed direct costs and \$3,472,023 in proposed indirect costs and rates, a total of \$7,177,256 in questioned costs. EPA's share of questioned costs is \$57,369.

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

*OIG Followup Statistics:* Resolution pending receipt of additional information.

**Report No. 08-4-00208, MACTEC Engineering & Consulting, Inc.—CAS 409, July 24, 2008**

*Summary:* In DCAA's opinion, the contractor was in noncompliance with Cost Accounting Standard 409 during the period of January 1, 2006, through December 31, 2006.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 08-4-00308, Tetra Tech EC, Inc.—EDP General Controls, September 30, 2008**

*Summary:* In DCAA's opinion, the contractor's information technology system of general internal controls was inadequate in part. DCAA's examination noted significant deficiencies in the design or operation of the internal control structure that could adversely affect the contractor's ability to record, process, summarize, and report direct and indirect costs in a manner consistent with applicable government contract laws and regulations.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 09-1-00034, Lockheed Martin Services Group—FY 2006 Incurred Cost, November 24, 2008**

*Summary:* DCAA questioned \$23,672,344 in claimed direct and proposed indirect costs and rates. Of this, \$381,582 is claimed direct costs and \$23,290,762 is proposed indirect costs and rates. DCAA also did not audit \$159,778,286 in claimed subsidiary and subcontracts costs. EPA's share of the questioned costs is 3 percent, or \$11,448 in claimed direct costs and \$698,722 in proposed indirect costs, a total of \$710,170.

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

*OIG Followup Status:* Resolution pending receipt of additional information.

**Grants and Interagency Agreements Management Division**

**Report No. 03-4-00120, Geothermal Heat Pump Consortium, Inc.—Costs Claimed, September 30, 2003**

*Summary:* We questioned \$1,153,472 due to material financial management deficiencies. The consortium's financial management system was inadequate for various reasons, including that the consortium did not separately identify and accumulate costs for all direct activities, such as membership support and lobbying; account for program income generated by the activities funded by the EPA agreements; and prepare or negotiate indirect cost rates.

*Agency Explanation:* The Grants and Interagency Agreements Management Division has been meeting with Office of Grants and Debarment senior managers, the Inspector General, and the Office of General Counsel to review the audit findings and recommendations. A proposed management decision has been prepared, and resolves most of the issues identified in the audit report. However, the Agency is still in negotiations with the Inspector General on the next steps for final resolution. On March 31, 2011, the Agency met with the Inspector General to further discuss the remaining issue of recovering program income as it relates to membership fees in accordance with Title 2 Code of Federal Regulation 215.24. The Agency will submit additional information to the Inspector General for review and comment, and expects to receive feedback during the week of April 11, 2011. A final course of action will be forthcoming shortly thereafter. Resolution expected by June 30, 2011.

*OIG Followup Status:* Response received, being evaluated.

**Report No. 10-4-0067, Incurred Cost Audit of Three EPA Cooperative Agreements Awarded To National Tribal Environmental Council, Inc., February 17, 2010**

*Summary:* We questioned \$2,802,222 of the \$3,586,445 reported because the recipient claimed unsupported costs of \$2,768,490 and ineligible costs of \$33,732 that did not comply with the financial and program management standards of Title 40, Code of Federal Regulations, Subpart B, Part 30. While the recipient's work plans describe activities and planned deliverables, they do not include a description of the recipient's goals or objectives for its participation in the Western Regional Air Partnership and National Tribal Air Association. Without the goals and objectives, the annual reports could not include a comparison of accomplishments with the objectives for the period, as required by Title 40, Code of Federal Regulations, Subpart B, Part 30.51. As a result, EPA cannot determine whether the funds EPA provided the recipient achieved their intended purpose.

*Agency Explanation:* As of March 28, 2011, the Office of Grants and Debarment continues to review the National Tribal Environmental Council payroll costs.

*OIG Followup Status:* No response.

### Office of Enforcement and Compliance Assurance

#### Report No. 08-P-00278, Strategic Planning in Priority Enforcement Areas, September 25, 2008

*Summary:* The Office of Enforcement and Compliance Assurance has instituted a process for strategic planning in its national enforcement priority areas. The FYs 2008–2010 strategic plans we reviewed—for air toxics, combined sewer overflows, and mineral processing—contain an overall goal, a problem statement, and other key elements. However, each of the plans is missing key elements to monitor progress and accomplishments and efficiently utilize Agency resources. All three strategies lack a full range of measures to monitor progress and achievements. Two strategies lack detailed exit plans. Additionally, the combined sewer overflow strategy does not address the states' key roles in attaining the strategy's overall goal. The absence of these elements hinders Office of Enforcement and Compliance Assurance from monitoring progress and achieving desired results in a timely and efficient manner.

*Agency Explanation:* The OIG issued a memorandum to the Office of Enforcement and Compliance Assurance on January 20, 2010, that requested this office to change the designation of recommendation 2-2 in the Management Audit Tracking System to "unresolved," and include it in the list of recommendations unresolved after a year. The OIG indicated that it would pursue this matter through the formal EPA audit resolution process.

*OIG Followup Status:* Referred to Audit Resolution Board.

#### Report No. 10-P-00224, EPA Should Revise Outdated or Inconsistent EPA–State Clean Water Act Memoranda of Agreement, September 14, 2010

*Summary:* This review is part of a series the OIG is conducting of EPA oversight of state enforcement programs. We assessed whether EPA's memoranda of agreement with states related to the National Pollutant Discharge Elimination System program impede consistent EPA–state enforcement and to what degree memoranda of agreements comply with federal requirements under the Clean Water Act. EPA generally agreed with our recommendations, saying it would coordinate assessment and revision of National Pollutant Discharge Elimination System memoranda of agreements with implementation of the Clean Water Action plan.

*Agency Explanation:* The Office of Enforcement and Compliance Assurance and the OIG did not have a mutually agreed corrective action plan as of March 28, 2011. Once both parties agree upon the corrective action plan, the corrective actions will be added to Management Audit Tracking System.

*OIG Followup Status:* No response.

### Region 1—Regional Administrator

#### Report No. 10-3-0094, Indian Township Tribal Government—FY 2008, April 5, 2010

*Summary:* Our analysis identified significant variances between grant funds received from EPA and the funds expended by the tribe. This difference created variances between funds left to draw and expend to financially close out the grants. The total variance between funds left to draw and the funds left to expend was \$14,668.

*Agency Explanation:* The tribe continues to improve its grants management tracking. Bureau of Indian Affairs monthly discussions are conducted with the regional audit coordinator, contract auditor for the tribe, and tribal compliance staff to discuss progress on reconciling open issues. Target resolution is September 2011.

*OIG Followup Status:* No response.

### Region 4—Regional Administrator

#### Report No. 10-4-0001, Internal Control Weaknesses under EPA Grant Nos. I004802070 and BG96483308, Awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina, October 5, 2009

*Summary:* The OIG received a Hotline complaint regarding EPA assistance agreement nos. I004802070 and BG96483308, awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina. The grantee did not

have a conflict of interest, as alleged, and its Standard Form 272s were correct and prepared in compliance with federal requirements, EPA policies, and grant terms and conditions. However, during the course of our examination, we identified significant deficiencies in internal control concerning equipment purchases and segregation of duties. Some purchase authorizations were dated the same day equipment was delivered, three quotes were not always obtained, and purchases were not always properly authorized. Also, one employee was authorized to write grant proposals; solicit funding to carry out the program goals; prepare budgets; oversee the expenditure of funds; and purchase, maintain, repair, and inventory all equipment. We recommended that EPA require the grantee to comply with its internal control policies and establish additional internal controls as needed.

*Agency Explanation:* Per the Grants Management Officer, the grantee's memorandum to the OIG will be revised to address missing information as requested by the OIG. The projected completion date is April 30, 2011.

*OIG Followup Status:* Resolution pending receipt of additional information.

**Report No. 10-4-0003, Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi, October 13, 2009**

*Summary:* The grantee did not meet the procurement and financial management requirements of Title 40 Code of Federal Regulations Part 31. As a result, we questioned \$1,745,457 in unsupported architectural and engineering costs claimed. The grantee will need to repay \$663,321 of grant funds. The grantee did not agree with those questioned costs. Due to the noncompliances and internal control weaknesses noted, the grantee may not have the capability to manage future grant awards.

*Agency Explanation:* Per the Grants Management Officer, the OIG and EPA are still in negotiations. The projected completion date is April 30, 2011.

*OIG Followup Status:* Incomplete response.

**Report No. 10-4-0013, Costs Claimed Under EPA Grant No. XP9468195 Awarded to the City of Flowood, Mississippi, October 27, 2009**

*Summary:* The grantee did not perform a cost analysis or negotiate a fair and reasonable profit as a separate element of the contract price as required under Title 40 Code of Federal Regulations 31.36(f). As a result, we questioned \$1,755,157 in unsupported architectural and engineering costs claimed. The grantee will need to repay \$896,224 of grant funds. The grantee did not agree with those questioned costs.

*Agency Explanation:* Per the grants management officer, the OIG has not responded to the revised response memorandum from Region 4. However, the OIG notified the Grants Management Office on December 21, 2010, that EPA Order 2750 was being revised and no decision will be made until they are finished.

*OIG Followup Status:* Resolution on hold, awaiting additional information. The OIG discussed resolution with Region 6 on April 6, 2011. The offices have agreed to a course of action to resolve the report.

## **Region 8—Regional Administrator**

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

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

*Agency Explanation:* Projected date to reach management decision/approved Final Determination Letter is April 22, 2011. The Agency met with the tribal chairman, treasurer, contracts specialist, and environmental director during the week of January 24, 2011, to discuss the need for policies, procedures, and controls to ensure compliance with federal laws, regulations, policies, and standards. We discussed the need for these policies and procedures to detail what everyone's responsibilities are, from the program staff, to the first line supervisor, to the finance department, to the environmental committee, and the tribal leadership. The Agency reviewed OMB Circulars A-87 and A-102 and discussed Part 6 of OMB's compliance supplement regarding internal controls.

*OIG Followup Status:* No response.

**Report No. 08-3-0307, Oglala Sioux Tribe, FY 2004, September 30, 2008**

*Summary:* The single auditor's findings indicate that the tribe may not be able to support the costs claimed under EPA grants. As a result, we are questioning the costs claimed of \$1,158,903.

*Agency Explanation:* Projected date for completion of corrective actions is December 31, 2011. The Tribal Finance Department has made tremendous progress toward developing and implementing departmental procedures and controls. They have requested EPA's assistance in helping to train program directors and key staff so that the control system and expectations for compliance can be rolled out throughout the tribal programs. In conjunction with Bureau of Indian Affairs, Indian Health Service, and Bureau of Reclamation, the Agency is preparing to work with the tribe's Finance Department to provide training to the Tribal Program Directors on the expectations for compliance with specific provisions of OMB Circular A-87 (particularly the basic guidelines), the grants management common rule (Title 40 Code of Federal Regulations Part 31), the current OMB Circular A-102, and OMB Circular A-133 (with an emphasis on Part 6 to the Compliance Supplement related to Internal Controls). The tribal administration will follow up with a discussion of the new policies and procedures they have developed that, when followed, will help provide assurances to tribal leadership and their federal partners that fiscal procedures and controls will be enacted as well as federal compliance requirement will be met. The training is to take place in late April or early May 2011.

*OIG Followup Status:* No response.

**Report No. 09-3-0252, Oglala Sioux Tribe, FY 2005, September 29, 2009**

*Summary:* The single auditor's findings indicate that the tribe may not be able to support the costs claimed under EPA grants. As a result, we are questioning the costs claimed during 2005 of \$307,323 as being unsupported.

*Agency Explanation:* Projected date for completion of corrective actions is December 31, 2011. The Tribal Finance Department has made tremendous progress toward developing and implementing departmental procedures and controls. See description above for report no. 08-3-0307 for Agency explanation.

*OIG Followup Status:* No response.

**Report No. 09-3-0253, Oglala Sioux Tribe, FY 2006, September 30, 2009**

*Summary:* The single auditor's findings indicate that the tribe may not be able to support the costs claimed under EPA grants. As a result, we are questioning the costs claimed in 2006 of \$530,042 as being unsupported.

*Agency Explanation:* Projected date for completion of corrective actions is December 31, 2011. The Tribal Finance Department has made tremendous progress toward developing and implementing departmental procedures and controls. See description above for report no. 08-3-0307 for Agency explanation.

*OIG Followup Status:* No response.

**Region 9—Regional Administrator****Report No. 10-2-0054, Examination of Costs Claimed under EPA Grant X96906001 Awarded to Walker Lake Working Group, Hawthorne, Nevada, January 6, 2010**

*Summary:* The grantee did not meet financial management requirements specified by Title 40 Code of Federal Regulations Part 30 and Title 2 Code of Federal Regulations Part 230. The grantee claimed contract costs not allowable because analysis and administration requirements were not met. Travel and other direct costs were not allowable because documentation requirements or cost principles were not met. The grantee's financial status report was also not supported by accounting system data. EPA should recover \$384,678 in questioned costs under the grant.

*Agency Explanation:* The Grants Management Office has been working with the OIG to address issues in a draft final determination letter. A final determination letter was originally targeted for completion by February 28, 2011. Both OIG and the Grants Management Office agreed to close out by March 31, 2011.

*OIG Followup Status:* Incomplete response.

**Region 10—Regional Administrator****Report No. 10-3-0238, Pelican, City of, FY 2009, September 29, 2010**

*Summary:* Our analysis identified that the city overstated program expenditures on its reimbursement request by approximately \$24,000, which led the city to request \$12,357 in excess of the actual costs from EPA for the congressionally mandated project assistance agreement, XP-96027601-2.

*Agency Explanation:* Region 10 has obtained satisfactory resolution of the audit findings, including receipt of the corrective action plan recommended by the OIG, and requested closure by OIG on March 15, 2011. In its close request, Region 10 called the OIG's attention to poor performance by the single auditor in this case. As a result, the OIG has not yet closed out this audit and has indicated it is further evaluating the closeout request before doing so. Closeout is pending the outcome of that evaluation.

*OIG Followup Status:* OIG awaiting information from single auditor.

**Report No. 10-4-0086, Examination of Costs Claimed under EPA Grant XP98069201 Awarded to the City of Blackfoot, Idaho, March 29, 2010**

*Summary:* The grantee did not meet financial management requirements specified by Code of Federal Regulations. The grantee claimed contract costs of \$1,713,009 also claimed under two other federal grants, supply and labor costs of \$24,836 not supported by source documents, and supply and administration costs of \$6,684 not eligible because they did not meet cost principles. As a result of these issues, EPA should recover \$1,045,926 in questioned costs under the grant. The grantee also should be designated as "high-risk" in the Integrated Grants Management System, and special conditions should be imposed on all future awards of EPA funds to the grantee.

*Agency Explanation:* Region 10 drafted a second proposed management decision. Issuance to OIG is pending a briefing of the Deputy Regional Administrator and other staff; issuance to the OIG is expected by April 15, 2011.

*OIG Followup Status:* No response

**Report No. 10-4-00241, Costs Claimed by the Alaska Native Tribal Health Consortium Under EPA Interagency Agreement DW 75-95754001, September 30, 2010**

*Summary:* The consortium did not meet financial management requirements specified by Code of Federal Regulations. EPA needs to recover \$1,007,690 of \$1,493,893 in costs questioned under the interagency agreement. The questioned costs identified during the audit were primarily caused by a miscommunication between the consortium and the U.S. Department of Health and Human Services on the application of approved indirect rates.

*Agency Explanation:* The OIG requested an extension until April 15, 2011, to provide a determination on the region's proposed management decision. On March 23, 2011, Region 10 granted the extension.

*OIG Followup Status:* Response received, being evaluated

**Total report issues before reporting period for which  
no management decision has been made as of March 31, 2011 = 39**

## Appendix 3—Reports With Corrective Action Not Completed

In compliance with reporting requirements in the Inspector General Act, Section 5(a)(3), “Identification of Reports Containing Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed,” and to help EPA managers gain greater awareness of outstanding commitments for action, we developed a *Compendium of Unimplemented Recommendations*. This separate document provides the information required in appendix 3 to this Semiannual Report to Congress. This compendium (available upon request or at <http://www.epa.gov/oig/reports/2011/20110429-11-N-0212.pdf>) is produced semiannually for Agency leadership and Congress based on Agency reports on the status of action taken on OIG recommendations and OIG selective verification of that reported status.

## Appendix 4—OIG Mailing Addresses and Telephone Numbers

### Headquarters

U.S. Environmental Protection Agency  
Office of Inspector General  
1200 Pennsylvania Ave., NW (2410T)  
Washington, DC 20460  
(202) 566-0847

### Offices

#### Atlanta

U.S. Environmental Protection Agency  
Office of Inspector General  
61 Forsyth Street, SW  
Atlanta, GA 30303  
Audit/Evaluation: (404) 562-9830  
Investigations: (404) 562-9857

#### Boston

U.S. Environmental Protection Agency  
Office of Inspector General  
5 Post Office Square, Suite 100 (OIG15-1)  
Boston, MA 02109-3912  
Audit/Evaluation: (617) 918-1470  
Investigations: (617) 918-1466

#### Chicago

U.S. Environmental Protection Agency  
Office of Inspector General  
77 West Jackson Boulevard  
13th Floor (IA-13J)  
Chicago, IL 60604  
Audit/Evaluation: (312) 353-2486  
Investigations: (312) 353-2507

#### Cincinnati

U.S. Environmental Protection Agency  
Office of Inspector General  
26 West Martin Luther King Drive  
Cincinnati, OH 45268-7001  
Audit/Evaluation: (513) 487-2360  
Investigations: (513) 487-2364

#### Dallas

U.S. Environmental Protection Agency  
Office of Inspector General (6OIG)  
1445 Ross Avenue, Suite 1200  
Dallas, TX 75202-2733  
Audit/Evaluation: (214) 665-6621  
Investigations: (214) 665-2790

#### Denver

U.S. Environmental Protection Agency  
Office of Inspector General  
1595 Wynkoop Street, 4th Floor  
Denver, CO 80202  
Audit/Evaluation: (303) 312-6969  
Investigations: (303) 312-6868

#### Kansas City

U.S. Environmental Protection Agency  
Office of Inspector General  
901 N. 5th Street  
Kansas City, KS 66101  
Audit/Evaluation: (913) 551-7878  
Investigations: (913) 551-7875

#### New York

U.S. Environmental Protection Agency  
Office of Inspector General  
290 Broadway, Room 1520  
New York, NY 10007  
Audit/Evaluation: (212) 637-3080  
Investigations: (212) 637-3041

#### Philadelphia

U.S. Environmental Protection Agency  
Office of Inspector General  
1650 Arch Street, 3rd Floor  
Philadelphia, PA 19103-2029  
Audit/Evaluation: (215) 814-5800  
Investigations: (215) 814-5820

#### Research Triangle Park

U.S. Environmental Protection Agency  
Office of Inspector General  
Mail Drop N283-01  
Research Triangle Park, NC 27711  
Audit/Evaluation: (919) 541-2204  
Investigations: (919) 541-1027

#### San Francisco

U.S. Environmental Protection Agency  
Office of Inspector General  
75 Hawthorne Street (IGA-1)  
7th Floor  
San Francisco, CA 94105  
Audit/Evaluation: (415) 947-4521  
Investigations: (415) 947-4500

#### Seattle

U.S. Environmental Protection Agency  
Office of Inspector General  
1200 6th Avenue, 19th Floor  
Suite 1920, M/S OIG-195  
Seattle, WA 98101  
Audit/Evaluation: (206) 553-4033  
Investigations: (206) 553-1273

#### Winchester

U.S. Environmental Protection Agency  
Office of Inspector General  
200 S. Jefferson Street, Room 314  
P.O. Box 497  
Winchester, TN 37398  
Investigations: (423) 240-7735

## Report fraud, waste or abuse

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Washington DC 20460

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