



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Special Report

# Assistance Agreement and Contract Recipients with Open Audit Recommendations May Affect Recovery Act Activities

Report No. 09-X-0196

July 14, 2009



**Report Contributors:**

Janet Kasper  
Matthew Simber  
Leah Nikaidoh  
Michael Petscavage  
Nancy Dao  
Lisa McCowan  
Wendy Swan

**Abbreviations**

CFR	Code of Federal Regulations
DCAA	Defense Contract Audit Agency
EPA	U.S. Environmental Protection Agency
FAOSC	Financial Analysis and Oversight Service Center
FY	Fiscal Year
GIAMD	Grants and Interagency Agreements Management Division
OAM	Office of Acquisition Management
OIG	Office of Inspector General
OMB	Office of Management and Budget



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We reviewed open recommendations from prior Office of Inspector General (OIG) audit reports that focused on assistance agreement and contract recipients that could impact the U.S. Environmental Protection Agency's (EPA's) American Recovery and Reinvestment Act (Recovery Act) activities. Recent Office of Management and Budget guidance requires the expediting of actions on open recommendations to preclude continuing weaknesses or deficiencies that can impact Recovery Act funding.

## Background

Open recommendations are those for which EPA or the recipient of an EPA assistance agreement or contract has not completed corrective actions. As of June 30, 2009, 67 reports had open recommendations that could impact EPA's Recovery Act activities.

**For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.**

**To view the full report, click on the following link:**  
[www.epa.gov/oig/reports/2009/20090714-09-X-0196.pdf](http://www.epa.gov/oig/reports/2009/20090714-09-X-0196.pdf)

## **Assistance Agreement and Contract Recipients with Open Audit Recommendations May Affect Recovery Act Activities**

### What We Found

As of June 30, 2009, EPA used Recovery Act funding to award one assistance agreement and one contract to recipients with open recommendations. Providing funding to recipients with known weaknesses and open recommendations increases the risks of fraud, waste, abuse, and mismanagement of Recovery Act funds.

We reviewed open audit reports for four audit areas for which the findings and recommendations primarily addressed questioned costs and internal control weaknesses:

- Financial audits of assistance agreement recipients (9 reports)
- Forensic audits of assistance agreement and contract recipients (4 reports)
- Single audits (27 reports)
- Defense Contract Audit Agency audits (27 reports)

In addition to the two recipients already receiving Recovery Act funding, at least a portion of the remainder may also receive such funds through assistance agreements and contracts. EPA should consider known concerns, including open recommendations, when making future awards.

### What We Recommend

We recommend that EPA verify whether assistance agreement and contract recipients have corrected weaknesses identified in OIG reports prior to awarding new funds, and expedite corrective action for open recommendations pertaining to Recovery Act funding recipients.



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

OFFICE OF  
INSPECTOR GENERAL

July 14, 2009

**MEMORANDUM**

**SUBJECT:** Assistance Agreement and Contract Recipients with Open Audit  
Recommendations May Affect Recovery Act Activities  
Report No. 09-X-0196

**FROM:** *Melissa M. Heist*  
Melissa M. Heist  
Assistant Inspector General for Audit

**TO:** Craig Hooks, Acting Assistant Administrator  
Office of Administration and Resources Management

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) has completed a review of open recommendations from prior financial audit reports that could impact EPA's American Recovery and Reinvestment Act (Recovery Act) activities.<sup>1</sup> This review was not an audit conducted in accordance with *Government Auditing Standards*.

We reviewed and included in this special report all EPA OIG reports with open recommendations as of June 30, 2009. Open recommendations are those for which EPA or the recipient of an EPA assistance agreement or contract has not completed corrective action. In accordance with Executive Office of the President, Office of Management and Budget (OMB) Recovery Act Implementation Guidance, dated April 3, 2009, if final action on report recommendations has not been taken, EPA should (1) expedite such action to preclude the continuance of weaknesses or deficiencies in the administration of Recovery Act-funded programs, or (2) provide an explanation of why such corrective actions cannot or should not be taken in the administration of Recovery Act-funded programs. The OMB guidance instructs OIGs to determine whether safeguards exist to ensure recipients and sub-recipients use funds for their intended purposes.<sup>2</sup>

---

<sup>1</sup> A report on open recommendations from performance audit reports, *Open Audit Recommendations Affecting Recovery Act Activities* (Report No. 09-X-0136), was issued on April 9, 2009.

<sup>2</sup> OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*.

This special report identifies open recommendations from 67 OIG audit reports in four different audit areas that could impact EPA's Recovery Act activities because the findings and recommendations addressed questioned costs and internal control weaknesses:

- Financial audits of assistance agreement recipients (9 reports)
- Forensic audits of assistance agreement and contract recipients (4 reports)
- Single audits (27 reports)
- Defense Contract Audit Agency reviews (27 reports)

A quick reference table listing all 67 reports is included as Attachment 1. Attachment 2 contains details on each of the reports based on audit area.

While not all the organizations in the 67 reports with open recommendations will receive Recovery Act funds, EPA continues to make assistance agreement and contract award decisions. These open recommendations demonstrate instances where recipient internal controls did not safeguard federal funds or follow federal regulations. EPA must ensure that recipients are able to effectively administer and manage Recovery Act-funded projects. Assistance agreement and contract recipients with internal control weaknesses may unknowingly or knowingly violate federal regulations. One of the crucial accountability objectives listed in the OMB guidance is to ensure "funds are used for authorized purposes and potential for fraud, waste, error, and abuse are mitigated." If EPA provides funding to recipients that have not implemented the identified corrective actions, the Agency increases the risks of fraud, waste, abuse, and mismanagement of Recovery Act funds.

On March 9, 2009, EPA issued its Initial Recovery Act Grant Award Guidance. This Guidance directed EPA Program and Grants Management Offices to resolve OIG audit, single audit, or EPA review open findings for Recovery Act funding applicants prior to award. When the open recommendations cannot be resolved prior to award and the finding does not call into question the recipient's ability to manage Recovery Act funds, the Office may proceed with the award. The award must contain a special term and condition requiring the recipient to take necessary corrective actions within a specified period. EPA made a Recovery Act Clean Water State Revolving Fund award to the State of New York and did not include the required special term and condition. The OIG recognizes that EPA included resolving open recommendations from prior reviews in its Recovery Act assistance award process. However, for Recovery Act grant recipients, we are recommending the Regional Senior Resource Official to verify that assistance agreement recipients have corrected weaknesses or have a plan to timely correct weaknesses identified in OIG, single audit, or EPA reviews prior to awarding funds and document the verification in the assistance agreement file. EPA's Office of Acquisition Management (OAM) also issued guidance; however, it did not address reviewing audit reports with open findings pertaining to contractors that may receive Recovery Act funds.

As of June 30, 2009, EPA had awarded Recovery Act funding to 2 of the 67 recipients with open recommendations (see Table 1).

**Table 1: Recipients of Recovery Act Funds with Open Recommendations**

Action Official	Recipient	Report No.	Recovery Act Program
Region 2	New York, State of	2007-3-00139	Clean Water State Revolving Fund
OAM	Contractor	08-4-0207	Superfund

Source: OIG analysis

We are making several recommendations to the Office of Administration and Resources Management, which oversees the administration of assistance agreements and contracts, to ensure that open recommendations are appropriately addressed in relation to Recovery Act funds. We will monitor EPA's implementing of this report's recommendations as part of our ongoing Recovery Act work.

## **Recommendations**

We recommend that the Assistant Administrator for Administration and Resources Management:

1. Require Regional Senior Resource Officials; Director, Grants and Interagency Agreements Management Division; and/or OAM Procurement Operation Division Directors to verify that assistance agreement and contract recipients have corrected weaknesses or have a plan to timely correct weaknesses identified in OIG reports prior to awarding funds, and document these actions in the assistance agreement or contract file.
2. For Defense Contract Audit Agency audit reports received by OAM since January 1, 2009, verify that contract recipients have corrected weaknesses or plan to timely correct weaknesses identified in these reports prior to awarding funds.<sup>3</sup> Document this review in the contract file. Implement the actions identified in Recommendation 3 for the contractor that received Recovery Act funding.

We recommend that the Assistant Administrator for Administration and Resources Management and the Regional Administrator, Region 2:

3. Expedite
4. corrective actions to address open recommendations for recipients that have received Recovery Act funding. Review assistance agreement and contract terms and conditions and amend them, as necessary, to adequately protect the government's interests. Document these actions in the assistance agreement or contract file, along with the approval of the actions by the Regional Senior Resource Official and the OAM Procurement Operation Division Director.

---

<sup>3</sup> As of January 1, 2009, EPA began administering the interagency agreement with the Defense Contract Audit Agency.

## **Action Required**

Please provide a response within 30 days describing the actions EPA is taking, or has taken, to address these recommendations. Specifically, we ask you to describe what EPA is doing to address the open recommendations pertaining to the two Recovery Act fund recipients.

If you or your staff has any questions regarding this report, please contact me at (202) 566-0899 or [heist.melissa@epa.gov](mailto:heist.melissa@epa.gov); or Janet Kasper, Director for Contracts and Assistance Agreement Audits, at (312) 886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

## ***Status of Recommendations and Potential Monetary Benefits***

Rec. No.	Page No.	RECOMMENDATIONS			POTENTIAL MONETARY BENEFITS (in \$000s)	
		Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount
1	3	Require Regional Senior Resource Officials; Director, Grants and Interagency Agreements Management Division; and/or OAM Procurement Operation Division Directors to verify that assistance agreement and contract recipients have corrected weaknesses or have a plan to timely correct weaknesses identified in OIG reports prior to awarding funds, and document these actions in the assistance agreement or contract file.	O	Assistant Administrator for Administration and Resources Management		
2	3	For Defense Contract Audit Agency audit reports received by OAM since January 1, 2009, verify that contract recipients have corrected weaknesses or plan to timely correct weaknesses identified in these reports prior to awarding funds. Document this review in the contract file. Implement the actions identified in Recommendation 3 for the contractor that received Recovery Act funding.	O	Assistant Administrator for Administration and Resources Management		
3	3	Expedite corrective actions to address open recommendations for recipients that have received Recovery Act funding. Review assistance agreement and contract terms and conditions and amend them, as necessary, to adequately protect the government's interests. Document these actions in the assistance agreement or contract file, along with the approval of the actions by the Regional Senior Resource Official and the OAM Procurement Operation Division Director.	O	Assistant Administrator for Administration and Resources Management and Regional Administrator, Region 2		

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress

**Attachment 1**

## ***Quick Reference Table for OIG Reports with Open Findings and Recommendations***

We have developed the following reference table of reports with open recommendations, listing the EPA action official and the page number on which the report description is located. The table lists reports open as of June 30, 2009. The Grants and Interagency Agreements Management Division (GIAMD) and the Office of Acquisition Management/Financial Analysis and Oversight Service Center (OAM/FAOSC) both are within EPA's Office of Administration and Resources Management. The recipients with open recommendations that have already received Recovery Act funds are highlighted in yellow.

**Table 1-1: OIG Report Quick Reference Table**

Action Official	OIG Report Number	Report Date	Report Title	Page
GIAMD	2002-2-00008	01/29/2002	Procurement Practices Under Grant No. X825532-01 Awarded to MBI International	14
GIAMD	2003-S-00001	05/29/2002	EPA Cooperative Agreements Awarded to the Coordinating Committee for Automotive Repair (Region 7 Proactive)	13
GIAMD	2003-4-00120	09/30/2003	Geothermal Heat Pump Consortium, Inc., Costs Claimed Under EPA Assistance Agreement Nos. X828299-01 and X828802-01	12
GIAMD	2005-3-00036	12/30/2004	National Indian Health Board, Fiscal Year (FY) 2002	17
GIAMD	2006-3-00006	10/13/2005	Alfred University, FY 2004	17
GIAMD	2007-3-00037	12/11/2006	Alfred University, FY 2005	19
GIAMD	2006-4-00122	07/31/2006	Association of State and Interstate Water Pollution Control Administrators Incurred Costs for Seven EPA Assistance Agreements	11
GIAMD	2006-3-00199	09/07/2006	Howard University, FY 2005	18
GIAMD	2007-4-00026	11/28/2006	International City/County Management Association Reported Outlays Under Seven Selected Cooperative Agreements	11
GIAMD	2007-4-00027	11/30/2006	Examination of Financial Management Practices of National Rural Water Association, Duncan, Oklahoma	10
GIAMD	08-1-0277	09/25/2008	National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements	9
GIAMD	09-3-0038	11/21/2008	Water Environment Federation, FY 2006	22
GIAMD	09-3-0073	01/06/2009	Environmental Council of the States and Affiliates, FY 2006	23
GIAMD	09-3-0062	01/07/2009	Missouri, University of, FY 2006	23
Region 1	2006-3-00203	09/18/2006	Indian Township Tribal Government, FY 2002	18
Region 1	2006-3-00204	09/18/2006	Indian Township Tribal Government, FY 2003	18
Region 1	2006-3-00205	09/19/2006	Indian Township Tribal Government, FY 2004	19
Region 1	08-3-0250	09/05/2008	Indian Township Tribal Government, FY 2006	20
Region 1	09-3-0024	11/12/2008	Indian Township Tribal Government, FY 2007	22
Region 2	2007-3-00139	07/26/2007	New York, State of, FY 2006	20

Action Official	OIG Report Number	Report Date	Report Title	Page
Region 2	09-3-0050	12/08/2008	St. Regis Mohawk Tribe, FY 2007	22
Region 2	09-3-0063	12/18/2008	Cayuga County Soil and Conservation District, FY 2006	23
Region 3	08-4-0156	05/19/2008	Canaan Valley Institute, Inc., Incurred Cost Audit of Five EPA Cooperative Agreements	9
Region 3	09-3-0126	03/23/2009	Alliance for the Chesapeake Bay, FY 2007	26
Region 3	09-4-0135	04/03/2009	Contractor	15
Region 5	09-4-0112	03/09/2009	ML Wastewater Management, Inc. – Procurement, Financial Management, and Lobbying Issues Under EPA Grant Number XP97572201	15
Region 5	09-4-0133	04/03/2009	Contractor	16
Region 6	09-3-0093	02/11/2009	Seminole Nation of Oklahoma, FY 2006	24
Region 6	09-3-0108	03/03/2009	Seminole Nation of Oklahoma, FY 2007	26
Region 8	2007-4-00078	09/24/2007	Cheyenne River Sioux Tribe Outlays Reported Under Five EPA Assistance Agreements	10
Region 8	08-3-0247	09/04/2008	North Dakota, State of, FY 2006	20
Region 8	08-3-0307	09/30/2008	Oglala Sioux Tribe, FY 2004	21
Region 8	09-3-0102	02/24/2009	Northern Cheyenne Tribe, FY 2006	25
Region 8	09-3-0103	02/25/2009	The City of Hill City, FY 2006	25
Region 8	09-3-0140	04/20/2009	Anaconda-Deer Lodge County, FY 2007	26
Region 9	09-3-0075	01/08/2009	Lone Pine Paiute-Shoshone Reservation, FY 2006	24
Region 9	09-3-0077	01/08/2009	La Jolla Band of Luiseno Indians, FY 2006	24
Region10	09-3-0104	02/25/2009	Snoqualmie Tribe, FY 2006	25
Region10	09-3-0109	03/03/2009	Nooksack Indian Tribe, FY 2006	26
Region10	09-2-0078	01/12/2009	Costs Claimed under EPA Grant XP98011401 Awarded to the City of Rupert, Idaho	15
OAM/FAOSC	08-1-0130	04/15/2008	Contractor	31
OAM/FAOSC	2007-1-00090	08/29/2007	Contractor	30
OAM/FAOSC	08-1-0131	04/15/2008	Contractor	30
OAM/FAOSC	2004-1-00099	09/14/2005	Contractor	28
OAM/FAOSC	2007-1-00016	11/13/2006	Contractor	29
OAM/FAOSC	2007-1-00097	09/20/2007	Contractor	30
OAM/FAOSC	08-1-0114	03/24/2008	Contractor	31
OAM/FAOSC	2007-4-00038	01/08/2007	Contractor	29
OAM/FAOSC	2007-4-00079	09/25/2007	Contractor	30
OAM/FAOSC	2007-1-00061	04/09/2007	Contractor	29
OAM/FAOSC	2007-1-00079	07/18/2007	Contractor	29
OAM/FAOSC	08-4-0157	05/20/2008	Contractor	31
OAM/FAOSC	08-4-0002	10/02/2007	Contractor	30
OAM/FAOSC	2006-4-00120	07/20/2006	Contractor	28
OAM/FAOSC	2007-4-00080	09/26/2007	Contractor	30
OAM/FAOSC	2006-4-00165	09/27/2006	Contractor	28
OAM/FAOSC	2006-4-00169	09/29/2006	Contractor	28
OAM/FAOSC	2007-1-00059	04/05/2007	Contractor	29
OAM/FAOSC	2007-4-00058	04/30/2007	Contractor	29
OAM/FAOSC	08-1-0129	04/10/2008	Contractor	30
OAM/FAOSC	2007-1-00080	08/30/2007	Contractor	29
OAM/FAOSC	08-4-0259	09/12/2008	Contractor	32
OAM/FAOSC	08-4-0207	07/24/2008	Contractor	31
OAM/FAOSC	09-1-0034	11/24/2008	Contractor	32

Action Official	OIG Report Number	Report Date	Report Title	Page
OAM/FAOSC	08-4-0308	09/30/2008	Contractor	31
OAM/FAOSC	09-4-0018	11/05/2008	Contractor	32
OAM/FAOSC	08-4-0208	07/24/2008	Contractor	31

Source: OIG analysis

**Attachment 2**

## ***Details on OIG Reports with Open Findings and Recommendations***

### **Financial Audits of Assistance Agreement Recipients**

The OIG performs financial audits of EPA assistance agreements to determine whether recipients claimed amounts that were reasonable, allocable, and allowable according to federal cost principles. These audits evaluate whether recipients maintained adequate financial management systems, complied with applicable laws and federal regulations, and achieved the intended purposes of the grants. We identified nine reports with open recommendations related to EPA assistance agreement recipients as of June 30, 2009. Details of the findings and recommendations for each report follow.

#### ***Report: National Caucus and Center on Black Aged, Inc., Incurred Cost Audit of Eight EPA Cooperative Agreements (08-1-0277), September 25, 2008***

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

**Recommendations:** We recommended that EPA's GIAMD require the recipient to: (1) revise its indirect cost proposals to clearly explain the process used to allocate costs to its agreements; (2) have the revised proposals approved by its cognizant federal agency; (3) use a more equitable method for allocating employee paid absences to agreements; and (4) revise its accounting manual to include procedures to ensure that final accounting of administrative costs occur timely.

#### ***Report: Canaan Valley Institute, Inc., Incurred Cost Audit of Five EPA Cooperative Agreements (08-4-0156), May 19, 2008***

We questioned \$3,235,927 of the \$6,686,424 in reported net outlays because the recipient reported unallowable outlays for indirect, contractual, and in-kind costs. Specifically, the recipient: (1) claimed indirect costs without approved indirect rates; (2) did not credit back to the agreements all program income; (3) did not demonstrate that it performed cost analysis of contracts; (4) reported costs for services outside of the scope of one agreement; (5) did not comply with terms and conditions of contracts; and (6) used EPA funds to match another federally-funded cooperative agreement. Also, the recipient could improve its sub-recipient monitoring program.

**Recommendations:** We recommended that EPA Region 3 recover questioned outlays of \$3,218,661 unless the recipient provides sufficient documentation to support the related reported costs in accordance with federal regulations. EPA Region 3 should require the recipient to prepare and submit its indirect cost rate proposals for negotiation using the accrual method, and disclose the direct allocation methodology. The recipient should credit \$17,266 in program income to the agreements and ensure that cost and pricing are performed and documented as part of its contract procurement process. We also recommended EPA Region 3 direct the recipient to revise its sub-recipient monitoring program to require technical reports from its sub-recipients and time its sub-recipient payments to ensure the funds are expended timely by its sub-recipients.

**Report: Cheyenne River Sioux Tribe Outlays Reported Under Five EPA Assistance Agreements (2007-4-00078), September 24, 2007**

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

**Recommendations:** We recommended that the EPA Region 8 Regional Administrator disallow and recover the federal share of ineligible costs of \$64,765. The Region should require the Tribe to provide sufficient documentation for the remaining \$3,037,062 questioned, and disallow and recover the federal share of any outlays the Tribe cannot support. The Region should also require the Tribe to adjust its indirect costs claimed. The Region should provide training to the Tribe on federal regulations and grant requirements, and review the Tribe's solicitations and contracts under EPA agreements until the Tribe has adequate procedures in place. The Region should confirm that all work under the agreements was satisfactorily completed prior to agreement closeout. The Region should maintain the Tribe's "high risk" designation until all audit issues have been resolved.

**Report: Examination of Financial Management Practices of National Rural Water Association, Duncan, Oklahoma (2007-4-00027), November 30, 2006**

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

Association practices did not comply with OMB Circular A-122 in the following instances:

- Procedures did not identify all unallowable costs and the Association did not have written procedures for reviewing costs.
- Costs were charged based on budgets and the Association did not consistently record costs based on actual activity.

- Direct and indirect costs may have included unallowable costs.
- Drawdowns were based on budget amounts and not actual expenditures.

**Recommendations:** We recommended that the Director of the Grants Administration Division (1) obtain final negotiated indirect cost rates for the Association; and (2) require the Association to develop written procedures to (a) identify unallowable costs in accordance with OMB Circular A-122, and (b) develop written procedures for the preparation of cash draws.

**Report: International City/County Management Association Reported Outlays Under Seven Selected Cooperative Agreements (2007-4-00026), November 28, 2006**

We questioned \$1,007,858 of the \$9,871,025 in reported outlays because the recipient claimed unallowable outlays for contractual services, sub-grant costs, indirect labor costs, and in-kind costs. Specifically, the recipient did not:

- compete contracts, justify a sole-source procurement, or perform contract cost analysis;
- oversee or maintain documentation for sub-grants; and
- maintain adequate documentation for in-kind costs used as recipient match.

We also questioned indirect costs the recipient claimed that were prohibited by law. For Brownfields grants, recipients are prohibited by law from claiming administrative costs, which EPA has determined to include indirect costs. However, EPA included in the grant a special condition to allow the recipient to claim some indirect costs as direct costs under the grant. The special condition conflicts with OMB regulations regarding direct and indirect costs. Therefore, we questioned indirect costs claimed under the award.

**Recommendations:** We recommended that EPA's GIAMD: (1) disallow the questioned outlays of \$78,298 prohibited by law; (2) obtain sufficient documentation to support the remaining questioned outlays of \$929,560 in accordance with EPA regulations or disallow the costs from federal grant participation; and (3) direct the recipient to establish procedures to address issues related to procuring contracts, managing sub-recipients, and documenting in-kind costs.

**Report: Association of State and Interstate Water Pollution Control Administrators Incurred Costs for Seven EPA Assistance Agreements (2006-4-00122), July 31, 2006**

The Association did not comply with financial and program management standards and procurement standards promulgated in Title 40 CFR, Subchapter B, Part 30. The Association: (1) could not provide support for any of its general journal entries; (2) included duplicate recorded costs in its accounting system; (3) could not always trace grant draws to the accounting records; (4) could not always support labor charged to the EPA grants; (5) could not support the recorded indirect costs; (6) did not record all of its program income; (7) did not have adequate written procedures for determining reasonable, allocable, and allowable costs; (8) drew EPA grant funds in excess of the funds needed; and (9) did not complete the required single audits for fiscal years ended June 30, 2004, and June 30, 2005. Also, the Association's procurement system did not comply with procurement standards. The Association awarded contracts to the

America's Clean Water Foundation, a related organization, without competition or a cost analysis, contrary to the requirements of Title 40 CFR 30.42 and 30.45.

**Recommendations:** We recommended that EPA's GIAMD: (1) recover \$1,883,590 unless the Association is able to reconstruct its accounting records to meet the minimum financial management standards required in Title 40 CFR 30.21; (2) disallow contract costs procured in violation of Title 40 CFR 30.42 and 30.45; (3) rescind provisional indirect cost rates for the fiscal years ended June 30, 2005, and June 30, 2006; (4) stop work on all active grants and refrain from awarding any new grants until EPA has assurances that the Association meets minimum financial management requirements; (5) keep the Association on the reimbursement payment method until the Association meets minimum financial management requirements, settles current federal liabilities, and repays all disallowed costs; and (6) require the Association to comply with single audit requirements for fiscal years ended June 30, 2004, and June 30, 2005.

**Report: Geothermal Heat Pump Consortium, Inc., Costs Claimed Under EPA Assistance Agreement Nos. X828299-01 and X828802-01 (2003-4-00120), September 30, 2003**

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

**Recommendations:** We recommended that EPA's GIAMD:

- 1) Evaluate the need and scope of the assistance agreements considering that there were other sources of income to support the activities; i.e., membership dues and agreements with other federal agencies. If EPA determines that there was not a need for the assistance, take action to annul the assistance agreement(s).

If EPA decides to allow agreements, we recommended that EPA:

- 2) Recover the \$1,153,472 of unsupported costs.
- 3) Suspend work under the current agreements and refrain from awarding new funds until the Consortium can demonstrate that its accounting practices are consistent with 40 CFR 30.21. At a minimum, the Consortium's system must: (a) ensure that financial results are current, accurate, and complete; (b) include written procedures to determine reasonableness, allocability, and allowability of costs in accordance with OMB Circular A-122; (c) include accounting records that are supported by adequate source documentation; (d) require the Consortium to establish an adequate time distribution system that meets the requirements of OMB Circular A-122, Attachment B, paragraph (7) – the system should account for total hours worked and leave taken, and identify all the specific activities and final cost objectives

that the employees work on during the pay period, including membership and lobbying activities; and (e) require the Consortium to follow all procurement standards under 40 CFR 30.40 through 30.48.

- 4) Require the Consortium to submit an indirect cost rate proposal prepared in accordance with OMB Circular A-122.
- 5) Require the Consortium to provide detailed documentation supporting its use of program income to fund additional activities furthering eligible project or program objectives under assistance agreement X828802-01. If the Consortium cannot provide documentation, program income should be deducted from any costs EPA determines to be allowable under the assistance agreement.

If EPA determined some costs were allowable, we recommended that EPA's GIAMD:

- 6) Deduct from allowable costs any program income earned by the membership activities funded under assistance agreement X828299-01.
- 7) Consider using program income from agreement number X828802-01 to fund the study not completed under agreement number X828299-01 per administrative condition number 15.

**Report: *EPA Cooperative Agreements Awarded to the Coordinating Committee for Automotive Repair (Region 7 Proactive)* (2003-S-00001), May 29, 2002**

We questioned over \$2 million because the Coordinating Committee for Automotive Repair did not account for the funds in accordance with federal rules, regulations, and agreement terms.

**Recommendations:** We recommended that the Director, Grants Administration Division:

- 1) Require the Committee to modify its financial management system to meet the requirements of 40 CFR 30.21. At a minimum, the system must:
  - Ensure that financial results are current, accurate, and complete.
  - Include written procedures to determine reasonableness, allocability, and allowability of costs in accordance with OMB Circular A-122.
  - Include accounting records that are supported by adequate source documentation.
- 2) Require the Committee to develop a time distribution system that meets the requirements of OMB Circular A-122.
- 3) Refrain from providing any new funds until the Agency confirms that the Committee has the financial management capabilities to manage funds in accordance with 40 CFR 30.21 and OMB Circular A-122.
- 4) Require the Committee to reconstruct the accounting records necessary to support the expenditure of funds in accordance with OMB Circular A-122. At a minimum, the Committee will need to review timesheets, logs, or other records to identify the time actually spent on EPA authorized activities.
- 5) Require the Committee to submit indirect cost proposals for the fiscal periods 1995 to the present in accordance with OMB Circular A-122.
- 6) Recover all ineligible costs that do not meet the requirements of OMB Circular A-122.
- 7) Recover all funds that cannot be supported in accordance with OMB Circular A-122.

**Report: Procurement Practices Under Grant No. X825532-01 Awarded to MBI International  
(2002-2-00008), January 29, 2002**

MBI did not have adequate justifications to support the award of sole source contracts. Also, MBI's procurement practices did not meet federal requirements. As a result, \$1,301,365 in contract costs and \$99,508 in consultant costs are not eligible for federal reimbursement. Further, there were apparent conflicts of interest between MBI, a subsidiary, and companies that the subsidiary created.

**Recommendation:** We recommended that the Director, Grants Administration Division, disallow the \$1,301,365 of ineligible costs incurred under EPA grant X825532-01.

## Forensic Audits of Assistance Agreement and Contract Recipients

The OIG conducts forensic audits of EPA assistance agreement and contract recipients to determine the acceptability and allowability of costs claimed and whether recipients complied with federal regulations. The OIG determines whether safeguards exist to ensure recipients and sub-recipients use funds for their intended purposes. We identified four forensic audit reports with open findings and recommendations as of June 30, 2009.

### **Report: Costs Claimed under EPA Grant XP98011401 Awarded to the City of Rupert, Idaho (09-2-0078), January 12, 2009**

The grantee did not meet Title 40 CFR Part 31 requirements for financial management. The grantee claimed: unsupported costs, unallowable pre-award costs, unallowable interest costs, and unallowable equipment costs. The grantee also reported cumulative total project costs that were not supported by accounting records. Therefore, EPA needs to recover \$63,256 of the \$423,106 in costs questioned under the grant.

**Recommendation:** We recommended that EPA Region 10's Regional Administrator disallow \$423,106 and recover \$63,256 in costs questioned under grant XP98011401.

### **Report: ML Wastewater Management, Inc. – Procurement, Financial Management, and Lobbying Issues Under EPA Grant Number XP97572201 (09-4-0112), March 9, 2009**

The grantee's financial management system was not sufficient to ensure that reported costs complied with federal regulations. The grantee's claim included unallowable costs involving procurement, interest, organizational costs, lobbying, indirect costs, and labor and fringe benefit costs. Further, total project costs may be unreasonable. The grantee also may not have provided at least 0.4 new acres of wetlands to replace wetlands filled during construction.

**Recommendations:** We recommended that the Regional Administrator, EPA Region 5, recover \$801,118 of the questioned costs, recover any unreasonable project costs, and designate the grantee as a high-risk grantee.

### **Report: 09-4-0135, April 3, 2009**

Based on our review, we found the contactor over-billed EPA for labor charges.

**Recommendations:** We recommended that the Regional Administrator, EPA Region 3, request the Office of Policy and Management's Contracting Officer to seek reimbursement of the over-billed labor charges.

**Report: 09-4-0133, April 3, 2009**

We found, the contractor had not maintained books and records (i.e., general ledger, monthly financial statements, etc.) and was not able to reconcile labor hours to its accounting system.

***Recommendations:*** We recommended that the EPA Regional Administrator, Region 5, utilize the information provided in deciding whether to exercise the award term options and in any future contracting decisions concerning the contractor.

## Single Audits

The Single Audit Act, as amended, requires non-federal entities (States, local governments, universities, tribal governments, and non-profit organizations) that expend \$500,000 or more of federal financial assistance during a fiscal year to have an annual, comprehensive “single audit”<sup>4</sup> that covers all federal expenditures (including grants, contracts and loans). The single audit is performed on the recipient’s financial statements and compliance with major federal program requirements. The single audit report contains the applicable opinions given by the single auditor as well as the following major sections: (1) the recipient’s financial statements; (2) the schedule of expenditures of federal awards; (3) a report on compliance with laws, regulations, and grant/contract requirements; (4) a schedule of findings and questioned costs (if applicable); and (5) the recipient’s corrective action plan(s). Federal agencies use single audits as a means to ensure that recipients are expending federal resources properly, and to assess the overall financial management capability of these recipients.

Table 2-1 lists prior Single Audit reports with open findings and recommendations as of June 30, 2009.

**Table 2-1: Single Audit Reports with Open Recommendations**

Action Official	Single Audit Report	Summary of Findings and Recommendations
GIAMD	Report No. 2005-3-00036 National Indian Health Board FY 2002 Issued: 12/30/2004	<p>The Board allocated salary costs to grants based on pre-determined formulas not supported by timesheets and charged amounts to various grants not always supported by original documentation. As a result, the single auditor questioned \$31,960 in unsupported costs.</p> <p><b>Recommendations:</b> We recommended that the Action Official recover the questioned costs of \$31,960, unless the recipient can provide adequate documentation to support these costs. We also recommended that EPA confirm the corrective action identified in the single audit report was implemented; if not, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
GIAMD	Report No. 2006-3-00006 Alfred University FY 2004 Issued: 10/13/2005	<p>The University's accounting system provided certified payroll information on an individual grant basis. However, the payroll distribution system did not provide a proportionate breakdown of each employee's total time between each sponsored program he/she may be working on and other non-sponsored activities. The auditor questioned costs of \$649,506, but could not determine the direct impact upon EPA's program.</p> <p><b>Recommendations:</b> We recommended that EPA require the University to provide adequate documentation to demonstrate that payroll costs claimed are allowable and allocable to EPA's grant. If the University is unable</p>

<sup>4</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Compliance Supplement, provide guidance in implementing single audit requirements. The auditor must conduct the single audit in accordance with *Government Auditing Standards*.

Action Official	Single Audit Report	Summary of Findings and Recommendations
		<p>to provide sufficient and adequate documentation to support the payroll costs; EPA should recover these costs. We recommended the Action Official confirm the recipient implemented the corrective action identified in the single audit report.</p>
<b>GIAMD</b>	Report No. 2006-3-00199 Howard University FY 2005 Issued: 09/07/2006	<p>The University had numerous payroll charging errors. The University did not: (1) have a formal procedure for documenting the journal entries made relating to cost transfers; (2) consistently perform sub-recipient monitoring procedures in accordance with its published policy; (3) allow for specific identification in the general ledger of the items used to meet the matches on federally-sponsored grants with cost-share requirements; (4) communicate with the applicable federal awarding agency regarding \$435,654 in assets that were disposed of, as required by federal regulation; (5) follow its established internal controls over the financial reporting process for quarterly and final financial status reports; and (6) have adequate procurement procedures.</p> <p><b>Recommendations:</b> We recommended the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
<b>Region 1</b>	Report No. 2006-3-00203 Indian Township Tribal Government FY 2002 Issued: 09/18/2006	<p>The Tribe did not invest in governmental securities as required by OMB Circular A-133, Compliance Supplement, or have written investment policies and procedures. The Tribe did not: have an adequate accounting system to record, process, and summarize accounting transactions; timely reconcile its bank accounts within its internal accounting system; and submit its financial statement audits, which had been as late as 2 years, in a timely manner. The Tribe maintains manual general ledger and bookkeeping systems decentralized from the Tribal books. The Tribe did not attach or could not find supporting receipts for various transactions.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
<b>Region 1</b>	Report No. 2006-3-00204 Indian Township Tribal Government FY 2003 Issued: 09/18/2006	<p>The Tribe did not invest in governmental securities as required by OMB Circular A-133, Compliance Supplement. The Tribe did not have written investment policies and procedures; or an adequate accounting system to record, process, and summarize accounting transactions. The Tribe maintains bank accounts within its internal accounting system that have not been timely reconciled. The Tribe has a chronic problem of late</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
		<p>financial statement audits and has been recently as far as 2 years behind in submission of audit reports. The Tribe maintains manual general ledger and bookkeeping systems decentralized from the tribal books. While testing transactions for federal programs, specifically environmental, supporting receipts were not attached and could not be found for payments of various transactions by the Tribe. Tribal and federal program requirements over fiscal spending require approved budgets. For the year audited, the Tribe exceeded various budget line items for tribal government. The Tribe has numerous bank accounts with financial institutions; approximately \$557,000 was uninsured or uncollateralized cash as of September 30, 2003.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
Region 1	Report No. 2006-3-00205 Indian Township Tribal Government FY 2004 Issued: 09/19/2006	<p>The Tribe did not invest in governmental securities as required by OMB Circular A-133, Compliance Supplement. The Tribe did not have written investment policies and procedures. The Tribe did not have an adequate accounting system to record, process, and summarize accounting transactions. The Tribe maintains bank accounts within its internal accounting system that have not been timely reconciled. The Tribe has a chronic problem of late financial statement audits and has been recently as far as 2 years behind in submission of audit reports. The Tribe maintains manual general ledger and bookkeeping systems decentralized from the tribal books. While testing transactions for federal programs, specifically environmental, supporting receipts were not attached and could not be found for payments of various transactions by the Tribe. Tribal and federal program requirements over fiscal spending require approved budgets. For the year audited, the Tribe exceeded various budget line items for tribal government. The Tribe has numerous bank accounts with financial institutions; approximately \$592,634 was uninsured or uncollateralized cash as of September 30, 2004. The Tribe did not submit timely quarterly reports.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
GIAMD	Report No. 2007-3-00037 Alfred University FY 2005	The University's current system provided certified payroll information on an individual grant basis. However, the payroll distribution system did not provide a proportionate

Action Official	Single Audit Report	Summary of Findings and Recommendations
	Issued: 12/11/2006	<p>breakdown of each employee's total time between each sponsored program he or she may be working on and other non-sponsored activities. The auditor questioned costs of \$856,419, but could not determine the direct impact upon EPA's program.</p> <p><b>Recommendations:</b> We recommended that EPA require the University to provide adequate documentation to demonstrate that payroll costs claimed are allowable and allocable to EPA's grant. If the University is unable to provide sufficient and adequate documentation to support the payroll costs; EPA should recover these costs. We recommended the Action Official confirm the recipient implemented the corrective action identified in the single audit report.</p>
Region 2	Report No. 2007-3-00139 New York, State of FY 2006 Issued: 07/26/2007	<p>The State had 191 audit reports with findings that were required to have management decisions rendered within 6 months. Of these, only 72 had been completed in a timely manner, 73 required more than 6 months to complete, and 46 had no decision rendered. The recipient did not have adequate program asset controls, inventory procedures, and proper tagging of items. The State did not maintain a complete list of its assets. Additionally, the State could not always locate items that appeared on the asset lists. The recipient did not have any evidence of a policy or procedure in place to ensure proceeds from the sale or disposal of the assets could be identified and returned to the federal program. The single audit report for the year ended March 31, 2005, was received by the New York Department of Environment Conservation (the prime recipient) in July 2005. However, the management decision was dated May 2006, five months late. The recipient has had the same finding in prior years and the Department has not ensured that its recipient has taken timely and appropriate corrective action.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
Region 8	Report No. 08-3-0247 North Dakota, State of FY 2006 Issued: 09/04/2008	<p>Program income was not properly recognized and reported by North Dakota State University.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p>
Region 1	Report No. 08-3-0250 Indian Township Tribal	The Tribe did not submit Standard Forms 269 and 272 within required timeframes (see Finding 2005-9 on page

Action Official	Single Audit Report	Summary of Findings and Recommendations
	Government FY 2006 Issued: 09/05/2008	<p>77 of the audit report). We reported this finding to EPA for resolution since the Tribe did not fully address this issue in FY 2006, and in FY 2006, the Tribe continued to struggle with processing financial information timely. For the EPA Partnership Performance grants, the single auditor reported that the Tribe did not have records or formal calculations to demonstrate that it met the matching requirements under these grants. During the review of the EPA Lead Educational Outreach grant PH-97122801, the single auditor identified payroll charges for an employee who traditionally had been paid using general fund resources. A review of the employee's timesheets and data sheet did not indicate that this individual's job responsibilities had changed. Therefore, there is no reason for this employee to charge the EPA grant. The single auditor questioned \$26,134 in unsupported costs.</p> <p><b>Recommendations:</b> We recommended that EPA: (1) Recover the \$26,134 in questioned unsupported costs, unless the Tribe can provide adequate documentation to support these costs. (2) Ensure that the Tribe has taken appropriate corrective action to address the findings in the single audit report. If the Tribe has not completed corrective action, it needs to provide a corrective action plan and milestone dates to address the findings. (3) For the EPA Performance Partnership grants, ensure that the Tribe has adequate documentation to support its matching requirements. If the Tribe cannot provide adequate support, EPA should recover any unmatched costs accordingly.</p>
Region 8	Report No. 08-3-0307 Oglala Sioux Tribe FY 2004 Issued: 9/30/2008	<p>The Tribe did not: (1) have an adequate system of accounting duties and internal controls to assure adequate internal controls over the safeguarding of assets and reliability of financial records and reporting; (2) perform reconciliations on a timely basis; (3) post cash receipts and other activity regularly into the general ledger; and (4) record several bank accounts in the general ledger. Additionally, there were many significant adjusting journal entries posted after the close of the books at year end. The single auditor identified several findings that affect indirect costs. First, the Tribe was not allocating the indirect cost rate properly to various programs. Second, during testing of indirect cost expenditures, the auditor found expenditures that should have been charged directly to programs. Also, some expenditures charged to the indirect cost fund were not necessary and reasonable. In testing transactions, the single auditor found that the Tribe did not have documentation to support accounts payable, travel costs, and fringe benefits. As a result, we questioned all reported expenditures of \$1,158,903.</p> <p><b>Recommendations:</b> We recommended that EPA Region 8: (1) Require the Tribe to prepare a</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
		reconciliation of its reported expenditures to its official general ledger. (2) Once the reconciliation is completed, select a sample of transactions to review, in detail, to ensure the costs are allowable, allocable, and reasonable under federal regulations and EPA grant requirements. Prior to sample selection, the Region should meet with the OIG to discuss its proposed sampling approach. (3) For any costs that are not adequately supported, recover these costs, accordingly.
Region 1	Report No. 09-3-0024 Indian Township Tribal Government FY 2007 Issued: 11/12/2008	<p>There are several EPA grants where the official time period has expired, but the Tribe still has funds available under these grants and potential related expenditures. To have access to these funds, the Tribe needs to request time extensions from EPA. The Tribe has drawn funds from various federal programs to pay general fund expenditures, which is not allowable. The single auditors noted a net deficit to federal programs of \$189,961. The Tribe recognized this condition existed due to misappropriation activities by the former Tribal governor.</p> <p><b>Recommendations:</b> We recommended that EPA ensure the Tribe took corrective action to address the findings in the single audit report. If the Tribe has not completed corrective action, it needs to provide a corrective action plan with milestone dates to address the findings.</p>
GIAMD	Report No. 09-3-0038 Water Environment Federation FY 2006 Issued: 11/21/2008	<p>In the prior year audit, the single auditor found that some expenses had been charged twice to this grant. To correct this error, the Federation was required to post an adjusting entry; however, the entry was not posted until almost a year after the errors were identified.</p> <p><b>Recommendations:</b> We recommended that EPA ensure that the recipient has taken appropriate action to address the finding in the single audit report. If the recipient has not completed corrective action, it needs to provide a corrective action plan and milestone dates to address the finding.</p>
Region 2	Report No. 09-3-0050 St. Regis Mohawk Tribe FY 2007 Issued: 12/08/2008	<p>The Tribe requested grant drawdowns in excess of current cash needs. The Performance Partnership program had a material positive cash balance for 6 months. The Tribe was unable to provide documentation that a fixed asset physical inventory was completed for the audit year for the Performance Partnership Grant program. The Tribe had one credit card charge that was not properly authorized for the Performance Partnership Grant program, BG99267201.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the audit report.</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
Region 2	Report No. 09-3-0063 Cayuga County Soil and Conservation District FY 2006 Issued: 12/18/2008	<p>The District did not have proper segregation of duties over assets. The District did not have one individual charged with overseeing the entire Anaerobic Digester Project. Instead, funds were requested by different individuals. Therefore, a single disbursement could be claimed under more than one grant as either a direct expense or as a cost share of the District. The District did not request drawdowns on a reimbursement basis as preferred by the grantor agency. Additionally, no supporting documentation was maintained to justify the amounts requested, whether for an advance or a reimbursement of expenses. The single auditors noted that 16 of 46 transactions selected for examination were not approved by the Executive Director as required by the District's purchasing policy.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the corrective action the recipient identified in the single audit report was implemented. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the audit report.</p>
GIAMD	Report No. 09-3-0073 Environmental Council of the States and Affiliates FY 2006 Issued: 01/06/2009	<p>The Council did not: (1) properly segregate duties; (2) formally review and approve journal entries prepared by the accountant; (3) reconcile major accounts such as cash, accounts receivable, grants receivable, deferred revenue, and grant revenue, to supporting schedules in a timely manner; (4) reconcile various accounts such as cash, accounts receivable, grants receivable, and deferred revenue that contained material misstatements; (5) consistently reflect an accurate recording of federal grant revenue and receivables in its accounting system; and (6) submit its FY 2006 reporting package within a timely manner. Compensation time earned by working hours in excess of standard weekly hours in 1 week and used in a subsequent week is charged to the federal program for the week the time is used rather than for the week the time was worked and earned.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p>
GIAMD	Report No. 09-3-0062 Missouri, University of FY 2006 Issued (Revised): 01/07/2009	<p>The University did not have an effective system of internal control in place to ensure compliance with (1) the activities allowed or unallowed costs/cost principles compliance requirements; (2) the procurement and suspension and debarment compliance requirements; and (3) the sub-recipient monitoring compliance requirement. The University also did not perform an effective or timely review of the sub-recipients' OMB Circular A-133 Single Audit Reports; issue management</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
		<p>decisions on audit findings within 6 months after receipt of the sub-recipients' OMB Circular A-133 Single Audit Reports; and ensure that the sub-recipients took appropriate and timely corrective action as required by OMB Circular A-133. The auditor questioned \$90,973.</p> <p><b>Recommendations:</b> We recommended that the Action Official: (1) Confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the audit report. (2) Recover \$90,973 in questioned costs unless the University can provide adequate documentation that the costs claimed are allowable and allocable to the assistance agreement(s).</p>
Region 9	Report No. 09-3-0075 Lone Pine Paiute-Shoshone Reservation FY 2006 Issued: 01/08/2009	<p>The Reservation's cash on hand (\$136,000) exceeded current expenditures. This finding was originally reported in FY 2005, and was not corrected in FY 2006.</p> <p><b>Recommendations:</b> We recommended that the Action Official: (1) Require the Reservation to provide expenditure documentation to support the \$136,000 in excessive cash draws. If the Reservation is unable to provide adequate documentation, the Reservation should reimburse EPA, including applicable interest. (2) Confirm the corrective action the recipient identified in the single audit report was implemented. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
Region 9	Report No. 09-3-0077 La Jolla Band of Luiseno Indians FY 2006 Issued: 01/08/2009	<p>Due to improperly prepared bank account reconciliations in prior years up to FY 2005, as well as changes made to transactions subsequent to reconciliation, many bank account reconciliations do not agree with the financial statements.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>
Region 6	Report No. 09-3-0093 Seminole Nation of Oklahoma FY 2006 Issued: 02/11/2009	<p>The cash balance on hand, \$2,677, for the EPA grant under the Tribal Air Quality Program, was less than the amount required, \$3,410.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the report.</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
Region 8	Report No. 09-3-0102 Northern Cheyenne Tribe FY 2006 Issued: 02/24/2009	<p>The Tribe was unable to produce property listings for FY 2006. The property listings provided were dated July 2007. Also, the Tribe has not performed a physical inventory of property and equipment within the past 2 years for EPA Grant Number BG98852306. Of 27 disbursements selected for testing, 4 I-9 forms were not properly completed for EPA Grant Number BG98852306.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p>
Region 8	Report No. 09-3-0103 The City of Hill City FY 2006 Issued: 02/25/2009	<p>The City did not: (1) begin the A-133 audit until after the 9-month period had passed; (2) have segregation of duties over revenue, expenditure, and payroll functions; (3) prepare, publish, or file its annual report for the year ended December 31, 2006; (4) report capital assets on its financial statements in accordance with Governmental Accounting Standards Board 34 and accounting principles; (5) present capital asset purchases as a separate line item in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds; (6) complete the year-end recordkeeping; and (7) post year-end entries to the general ledger. Deficiencies were noted in internal accounting control and recordkeeping, resulting in a diminished assurance that transactions are properly executed and recorded and that assets are properly safeguarded.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p>
Region 10	Report No. 09-3-0104 Snoqualmie Tribe FY 2006 Issued: 02/25/2009	<p>The Tribe's policies and procedures were not designed to ensure time elapsing between the transfer of funds from the U.S. Treasury and disbursement was minimized. The approximate duration for cash carried is 5 working days cash needs; however, the Tribe carried cash for 9 months for an EPA grant. Travel advance payments to employees were not consistently reconciled with receipts. Evidence of event attendance was not consistently provided. Overpayments to employees and vendors were apparently disbursed. Federal funds were loaned to treasury cash from an EPA program; as a result, the auditors questioned \$20,963.</p> <p><b>Recommendations:</b> We recommended that the Action Official: (1) Confirm the recipient implemented the corrective action identified in the single audit report. If</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
		<p>the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p> <p>(2) Recover the \$20,963 in unallowable costs that were loaned to the recipient's treasury cash account.</p>
Region 6	Report No. 09-3-0108 Seminole Nation of Oklahoma FY 2007 Issued: 03/03/2009	<p>The negative cash balance on hand, -\$591, for the EPA grant, Tribal Air Quality Program, was less than the amount required, \$2,341. This was due to the Nation lending funds to other programs. The auditors questioned \$2,932.</p> <p><b>Recommendations:</b> We recommended that the Action Official: (1) Confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the finding in the audit report.</p> <p>(2) Recover the \$2,932 in questioned unsupported costs unless the Nation can provide adequate documentation that the costs claimed are allowable and allocable to the assistance agreement.</p>
Region 10	Report No. 09-3-0109 Nooksack Indian Tribe FY 2006 Issued: 03/03/2009	<p>The Tribe submitted late its indirect cost proposal, which was due June 30, 2005, for the year ended December 31, 2006; the negotiated rate was not obtained until April 23, 2007. For the Environmental Services Program (Annual Performance Grant), the single auditor could not determine the dates the annual performance report or Standard Forms 272 were filed. The Tribe did not have adequate internal controls to certify payroll allocation between federal programs.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the audit report.</p>
Region 3	Report No. 09-3-0126 Alliance for the Chesapeake Bay FY 2007 Issued: 03/23/2009	<p>Cumulative temporarily restricted net assets were not reconciled to the job cost system. The Alliance accrued non-vesting accumulating sick leave.</p> <p><b>Recommendations:</b> We recommended that the Action Official confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report.</p>
Region 8	Report No. 09-3-0140 Anaconda-Deer Lodge County FY 2007 Issued: 04/20/2009	<p>While the auditor maintained independence under the American Institute of Certified Public Accountants Ethics Interpretation of 101-3, Performance of Non-Attest Services, the auditor assisted in posting client-approved adjusting entries to the trial balance and in the preparation of draft financial statements, notes, and</p>

Action Official	Single Audit Report	Summary of Findings and Recommendations
		<p>supplementary schedules. The Treasurer of the County was unable to reconcile the County's cash. At June 30, 2007, the unreconciled amount was \$39,568. The County has consulted with outside sources to help with the reconciliation process with considerable progress; however, the cash is still out of balance. Further, cash has not been reconciled since June 30, 2007. The County has not performed a physical inventory of fixed assets and compared the physical inventory to existing detailed records of fixed assets. Equipment was purchased without being approved in the Superfund Cooperative Agreement between EPA and the County. The auditors questioned \$16,576. The County does not have an investment policy currently in force and has not been active in collecting personal property taxes. The Public Administrator has not posted an annual report in the office of the Clerk of the District Court. The County has not included a Management's Discussion and Analysis as part of its supplementary information accompanying the basic financial statements, as required by Governmental Accounting Standards Board Number 43.</p> <p><b>Recommendations:</b> We recommended that the Action Official: (1) Confirm the recipient implemented the corrective action identified in the single audit report. If the corrective action has not been implemented, EPA needs to obtain a corrective action plan, with milestone dates, for addressing the findings in the report. (2) Recover the \$16,576 in questioned ineligible costs. Also, given the nature and extent of findings presented, we recommended that the Region closely consider the recipient's financial capability prior to awarding any additional funds, including monies the Recovery Act may provide.</p>

Source: OIG analysis

## Defense Contract Audit Agency Audits

The Defense Contract Audit Agency (DCAA) audits contracts for the Department of Defense and provides contract audit services to other government agencies. DCAA audits include evaluations of contractor policies, procedures, and controls. These audits identify and evaluate activities that contribute to or impact proposed or incurred government contract costs.

A contractor may have contracts with multiple Federal agencies and the reports cover all government funding, not just EPA. The Federal agency that provides the most funding is generally identified as cognizant and has the lead for resolving the report findings. For many DCAA reports, EPA is not cognizant. Even though OAM is identified as the action official, EPA may not be the lead agency responsible for resolving the report issues. Table 2-2-below lists the 34 DCAA reports with open findings and recommendations related to EPA contract recipients as of June 30, 2009.

**Table 2-2: DCAA Reports with Open Recommendations**

Action Official	DCAA Audit Report	Summary of Findings and Recommendations
<b>OAM/FAOSC</b>	OIG Report No. 2004-1-00099 Issued: 09/14/2005	<p>DCAA questioned \$3,595,399 in proposed general and administrative costs for FY 2002, of which EPA's share equals \$2,128. DCAA qualified the audit results pending receipt of assist audit reports.</p> <p><b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.</p>
<b>OAM/FAOSC</b>	OIG Report No. 2006-4-00120 Issued: 07/20/2006	<p>DCAA determined that the Information Technology system general internal controls were inadequate in part in 2006. DCAA's examination disclosed certain significant deficiencies in the design or operation of the general internal controls that could adversely affect the organization's ability to record, process, summarize, and report direct and indirect costs in a manner that is consistent with applicable government contract laws and regulations.</p> <p><b>Recommendation:</b> We recommended that the Action Official resolve the issue.</p>
<b>OAM/FAOSC</b>	OIG Report No. 2006-4-00165 Issued: 09/27/2006	<p>DCAA reported that the service centers cost system and related internal control policies and procedures were inadequate in part in 2006. DCAA's examination disclosed certain significant deficiencies in the design or operation of the Indirect/Other Direct Costs system process that could adversely affect the organization's ability to record, process, summarize, and report Indirect/Other Direct Costs in a manner consistent with applicable government contract laws and regulations.</p> <p><b>Recommendation:</b> We recommended that the Action Official resolve the issue.</p>

Action Official	DCAA Audit Report	Summary of Findings and Recommendations
OAM/FAOSC	OIG Report No. 2006-4-00169 Issued: 09/29/2006	DCAA reported that the labor accounting system was inadequate in part in 2006. DCAA's examination disclosed significant deficiencies in the design or operation of the internal control structure that could result in increased control risk for the reliability of labor charges.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 2007-1-00016 Issued: 11/13/2006	DCAA questioned \$188,772,784 in claimed direct costs and proposed indirect costs for FY 2001, of which EPA's share is \$1,729,601.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-4-00038 Issued: 01/08/2007	DCAA determined that certain labor practices require corrective action to improve the reliability of the contractor's labor accounting system in 2006. DCAA expressed no opinion on the adequacy of the system taken as a whole.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 2007-1-00059 Issued: 04/05/2007	DCAA questioned \$787,774 in proposed indirect costs in FY 2004, of which EPA's share is \$70,900.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-1-00061 Issued: 04/09/2007	DCAA questioned \$34,708,911 in claimed direct costs and proposed indirect costs for FY 2004, of which EPA's share is \$694,178.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-4-00058 Issued: 04/30/2007	DCAA determined that certain labor practices require corrective action to improve the reliability of the contractor's labor accounting system. DCAA did not express an opinion on the adequacy of the contractor's labor accounting system taken as a whole.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 2007-1-00079 Issued: 07/18/2007	DCAA questioned \$11,969,625 in proposed indirect costs for FY 2005, of which EPA's share is \$119,696.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.

Action Official	DCAA Audit Report	Summary of Findings and Recommendations
OAM/FAOSC	OIG Report No. 2007-1-00090 Issued: 08/29/2007	DCAA questioned \$2,201,507 in claimed direct costs and proposed indirect costs for FY 2002, of which EPA's share of questioned indirect costs is \$123,686. None of the questioned direct costs impact EPA contracts.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-1-00080 Issued: 08/30/2007	DCAA questioned \$10,982,460 in proposed indirect costs for FY 2005, of which EPA's share equals \$133,069.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-1-00097 Issued: 09/20/2007	DCAA questioned \$300,645 in proposed indirect costs for FY 2003, of which EPA's share is \$27,058.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 2007-4-00079 Issued: 09/25/2007	DCAA reported that the billing system and related internal control policies and procedures were inadequate. The DCAA examination noted certain significant deficiencies in the design or operation of the internal control structure, which in its judgment could adversely affect the contractor's ability to record, process, summarize, and report billings in a manner that is consistent with applicable government contract laws and regulations.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 2007-4-00080 Issued: 09/26/2007	DCAA reported that the budget and planning system and related internal control policies and procedures were inadequate in part in 2006.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 08-4-0002 Issued: 10/02/2007	DCAA reported that the compensation system and related internal control policies and procedures are inadequate in part in 2007. DCAA's examination noted certain significant deficiencies in the design or operation of the internal control structure, which could adversely affect the contractor's ability to record, process, summarize, and report compensation in a manner that is consistent with applicable government contract laws and regulations.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.

Action Official	DCAA Audit Report	Summary of Findings and Recommendations
OAM/FAOSC	OIG Report No. 08-1-0114 Issued: 03/24/2008	DCAA questioned \$2,082,837 in proposed indirect costs for FY 2004, of which EPA's share is \$197,869.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 08-1-0129 Issued: 04/10/2008	DCAA questioned the proposed carry forward FY 2005 amounts of \$377,330, of which EPA's share is \$45,280.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 08-1-0131 Issued: 04/15/2008	DCAA questioned \$15,966,631 in claimed direct costs and proposed indirect costs for FY 2001, of which EPA's share equals \$44,648.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 08-1-0130 Issued: 04/15/2008	DCAA questioned \$7,177,256 in claimed direct costs and proposed indirect costs for FY 1999, of which EPA's share equals \$57,369.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.
OAM/FAOSC	OIG Report No. 08-4-0157 Issued: 05/20/2008	DCAA reported that the control environment and the overall accounting system and related internal control policies and procedures were inadequate in part in 2006. DCAA noted one significant deficiency in the design or operation of the internal control structure that could adversely affect the organization's ability to record, process, summarize, and report costs in a manner consistent with applicable government contract laws and regulations.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 08-4-0207 Issued: 07/24/2008	DCAA reported that certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 08-4-0208 Issued: 07/24/2008	DCAA reported that during the period of January 1, 2006, through December 31, 2006, the contractor was in noncompliance with Cost Accounting Standard 409 Depreciation of Tangible Capital Assets and Federal Acquisition Regulation Part 31.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.

Action Official	DCAA Audit Report	Summary of Findings and Recommendations
OAM/FAOSC	OIG Report No. 08-4-0259 Issued: 09/12/2008	DCAA reported that certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 08-4-0308 Issued: 09/30/2008	DCAA reported that the information technology system general internal controls of the contractor were inadequate in part. The DCAA examination noted certain significant deficiencies in the design or operation of the internal control structure. In their judgment, these deficiencies could adversely affect the organization's ability to record, process, summarize, and report direct and indirect costs in a manner that is consistent with applicable government contract laws and regulations.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 09-4-0018 Issued: 11/05/2008	DCAA reported that the contractor was in noncompliance with Cost Accounting Standard 409, Depreciation of Tangible Capital Assets. DCAA was not able to obtain the date of the initial failure to comply with the standard. As of the date of the report, the condition causing the noncompliance had not been corrected.  <b>Recommendation:</b> We recommended that the Action Official resolve the issue.
OAM/FAOSC	OIG Report No. 09-1-0034 Issued: 11/24/2008	DCAA questioned proposed indirect costs and rates for FY 2006. EPA's share of the questioned costs is \$710,170.  <b>Recommendation:</b> We recommended that the Action Official resolve the questioned costs.

Source: OIG analysis

**Appendix A*****Distribution***

Acting Assistant Administrator for Administration and Resources Management  
Assistant Administrator for Air and Radiation  
Assistant Administrator for Solid Waste and Emergency Response  
Acting Assistant Administrator for Water  
Acting Regional Administrators, Regions 1-10  
Agency Follow-up Official (the CFO)  
Agency Follow-up Coordinator  
Acting General Counsel  
Director, Office of Brownfields and Land Revitalization  
Acting Director, Office of Acquisition Management  
Acting Director, Office of Underground Storage Tanks  
Director, Office of Grants and Debarment  
Director, Grants and Interagency Agreements Management Division  
Audit Follow-up Coordinator, Office of Administration and Resources Management  
Audit Follow-up Coordinator, Office of Air and Radiation  
Audit Follow-up Coordinator, Office of Solid Waste and Emergency Response  
Audit Follow-up Coordinator, Office of Water  
Audit Follow-up Coordinators, Regions 1-10  
Acting Inspector General