



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Quick Reaction Report

# **Examination of Costs Claimed under EPA Grant X96906001 Awarded to Walker Lake Working Group, Hawthorne, Nevada**

**Report No. 10-2-0054**

**January 6, 2010**

**Report Contributors:**

Eileen Collins  
Michael Owen  
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**Abbreviations**

CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FSR	Financial Status Report
OIG	Office of Inspector General



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Examination

The U.S. Environmental Protection Agency (EPA) Office of Inspector General is examining grants awarded to nonprofit grantees. We selected Walker Lake Working Group (grantee) for examination.

## Background

EPA Region 9 awarded grant X96906001 on September 30, 2004. The grant provided federal assistance of \$842,100 for developing a conservation plan for Walker Lake that will sustain the native freshwater ecosystem. The plan will be based on scientific and social studies of the basin to show where water can be acquired or saved. The grant specifies that EPA will contribute 100 percent of the approved allowable project costs up to the awarded amount.

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/2010/20100106-10-2-0054.pdf](http://www.epa.gov/oig/reports/2010/20100106-10-2-0054.pdf)

## ***Examination of Costs Claimed under EPA Grant X96906001 Awarded to Walker Lake Working Group, Hawthorne, Nevada***

### **What We Found**

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 30. In particular, the grantee claimed:

- Contract costs that were not allowable because analysis and administration requirements were not met.
- Travel and other direct costs that 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.

Because of these issues, EPA should recover \$384,678 in questioned costs under the grant. These issues also indicate that the grantee may not have the capability to manage the grant and future EPA awards.

### **What We Recommend**

We recommend that the Regional Administrator, EPA Region 9, disallow and recover \$384,678 in questioned costs under the grant if the grantee is unable to provide adequate documentation to meet the appropriate federal financial management and procurement requirements.

We also recommend that the Region 9 Regional Administrator require the grantee to improve its procurement process and internal controls, and establish procedures to ensure that future Financial Status Reports are properly supported by accounting system data. Further, the Region 9 Regional Administrator should establish special conditions for the grant and future EPA awards to the grantee that require payment to the grantee on a reimbursement basis and review and approval by the EPA project officer of reimbursement requests, including all supporting documentation for the claims prior to payment.



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

OFFICE OF  
INSPECTOR GENERAL

January 6, 2010

**MEMORANDUM**

**SUBJECT:** Examination of Costs Claimed under EPA Grant X96906001  
Awarded to Walker Lake Working Group, Hawthorne, Nevada  
Report No. 10-2-0054

**FROM:** Robert Adachi   
Director of Forensic Audits

**TO:** Jared Blumenfeld  
Regional Administrator  
EPA Region 9

This report is on time-critical issues. These issues require immediate attention to protect the government's interest since the grant is on-going and the grantee continues to make draw downs of federal funds. This report represents the opinion of the Office of Inspector General and does not necessarily represent the final position of the U.S. Environmental Protection Agency (EPA). EPA managers will make final determinations on matters in this report.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$ 82,312.

**Action Required**

In accordance with EPA Manual 2750, Chapter 3, Section 6(f), you are required to provide us your proposed management decision for resolution of the findings contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due in 120 days, or on May 6, 2010. To expedite the resolution process, please e-mail an electronic version of your proposed management decision to [adachi.robert@epa.gov](mailto:adachi.robert@epa.gov).

We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>. If you have any questions, please contact me at (415) 947-4537 or at the e-mail address above.

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## Introduction

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### **Purpose**

The purpose of the examination was to determine whether the costs claimed by Walker Lake Working Group (grantee) complied with grant requirements and applicable federal laws and regulations. During our examination, we determined that the grantee did not comply with federal procurement and cost documentation requirements. We believe these issues require immediate attention in to protect the government's interest since the grant is on-going and the grantee continues to make draw downs.

### **Background**

The U.S. Environmental Protection Agency (EPA) Region 9 (Region) awarded grant number X96906001 on September 30, 2004. The purpose of the grant was to provide federal assistance for the grantee to develop a conservation plan for Walker Lake that will sustain the native freshwater ecosystem. The plan will be based on scientific and social studies of the basin to show where water can be acquired or saved. The grant was to fund legal and technical experts on western water law, native wildlife, and desert terminal lakes, who will help design the plan.

The total amount awarded under the grant is \$842,100. The grant specifies that EPA will contribute 100 percent of the approved allowable project costs up to the awarded amount. The budget and project period for the grant is from October 1, 2004, to October 31, 2011. The most recent Financial Status Report (FSR) submitted was for the period ended September 30, 2008, with a cumulative amount claimed of \$388,849.

## Independent Attestation Report

As part of our continued oversight of grants awarded to nonprofit organizations by EPA, we have examined the costs claimed by the grantee in its FSR covering the period October 1, 2004, to September 30, 2008. By signing the award documents, the grantee accepted responsibility for preparing its cost claim to comply with the requirements of Title 40 Code of Federal Regulations (CFR) Part 30, Title 2 CFR Part 230, and the terms and conditions of the grant. Our responsibility is to express an opinion on the grantee's FSR based on our examination.

We conducted our examination in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. We examined, on a test basis, evidence supporting the amount claimed in the FSR and performed other procedures we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We conducted our audit between April 27, 2009, and October 14, 2009. We performed the following steps during our audit:

- Reviewed EPA Region 9 project and grant files.
- Interviewed the EPA project officer to obtain an understanding of the project.
- Reviewed grantee support for the cumulative amounts reported for the period ended September 30, 2008, including the grantee's electronic accounting records and supporting invoices, bank statements, cancelled checks, contracts, and procurement documents.
- Interviewed grantee personnel to obtain an understanding of the project, as well as the grantee's processes for procurement, drawing down EPA grant funds, and invoice payment.
- Performed various fraud detection procedures, including interviewing EPA and grantee personnel, reviewing drawdown patterns and board of directors' meeting minutes, performing a duplicate payment test, and performing a missing check review.

As part of obtaining reasonable assurance that the grantee's FSR is free of material misstatement, we performed tests of its compliance with the requirements of Title 40 CFR Part 30, Title 2 CFR Part 230, and the terms and conditions of the grant. We also considered the grantee's internal controls over cost reporting to determine our audit procedures and to express our opinion on the FSR. Our consideration of internal control would not necessarily disclose all internal control matters that might be material weaknesses. A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement will not be prevented or detected. A significant deficiency is a deficiency in internal control, or combination of control deficiencies, that adversely affects the grantee's ability to initiate, authorize, record, process, or report data

reliably, in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Our examination disclosed the following noncompliance and material weaknesses concerning financial management requirements specified by Title 40 CFR Part 30 and Title 2 CFR Part 230:

- The grantee did not comply with the cost analysis and contract administration requirements of Title 40 CFR Part 30. See discussion on page 4 of this report.
- The grantee did not have adequate controls to ensure that travel and other direct costs claimed met documentation requirements and cost principles specified by Title 2 CFR Part 230. See discussion on page 5 of this report.
- The grantee's FSR was not supported by accounting system data. See discussion on page 6 of this report.

As a result of these issues, we questioned \$384,678 of the \$388,849 claimed under the grant.

In our opinion, because of the effect of the issues described above, the FSR does not meet, in all material respects, the requirements of Title 40 CFR Part 30, Title 2 CFR Part 230, and the terms and conditions of the grant for the period ended September 30, 2008.



Robert K. Adachi  
Director of Forensic Audits  
October 14, 2009



## Results of Examination

The grantee did not meet financial management requirements specified by Title 40 CFR Part 30 and Title 2 CFR Part 230. In particular, the grantee claimed:

- Contract costs that were not allowable because procurement analysis and administration requirements were not met.
- Travel and other direct costs that were not allowable because documentation requirements or cost principles were not met.

The grantee's FSR was also not supported by accounting system data. As a result of these issues, EPA should recover \$384,678 in questioned costs under the grant. These issues also indicate that the grantee may not have the capability to manage the grant and future EPA awards. The questioned costs are summarized in Table 1:

**Table 1: Summary of Questioned Costs**

Cost Category	Amount Claimed	Amount Questioned
Contract Costs <sup>1</sup>	\$367,415	\$364,750
Travel and Other Direct Costs <sup>2</sup>	21,434	19,928
<b>Totals</b>	<b>\$388,849</b>	<b>\$384,678</b>

<sup>1</sup> See discussion under *Contract Costs Did Not Meet Analysis and Administration Requirements*.

<sup>2</sup> See discussion under *Travel and Other Direct Costs Did Not Meet Documentation Requirements or Cost Principles*.

Sources: Amounts claimed were from accounting system data the grantee provided in supporting the FSR amount. Costs questioned were based on OIG's analysis of the data.

### ***Contract Costs Did Not Meet Procurement Analysis and Administration Requirements***

The grantee claimed contract costs of \$367,415 that were not allowable because procurement analysis and administration requirements were not met. According to Title 40 CFR Part 30.45, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. The grantee claimed \$367,415 under the grant for legal and other consulting services that were procured through sole source contracts without conducting the required cost or price analyses. Without the cost or price analyses, the grantee was unable to demonstrate that the contract prices and hourly rates charged by the consultants are fair and reasonable.

The grantee also has not established a contract administration system in accordance with Title 40 CFR Part 30.47. During the examination, the grantee was unable to provide copies of the contracts for one of the legal consultants and its subcontractor. Title 40 CFR Part 30.47 requires a system for contract administration that ensures contractor

conformance with the terms, conditions, and specifications of the contract, and adequate and timely follow-up of all purchases. Without formal written contracts on file, the grantee was unable to demonstrate whether the legal consultant's and subcontractor's costs claimed under the grant were fair and reasonable and conformed to the scopes of work, terms, and conditions of the contracts. Because of the analysis and the contract administration issues, we questioned all contract costs claimed.

In response to our discussion draft issued on October 14, 2009, the grantee provided price information showing that \$2,665 of costs of claimed for one of the contracts was fair and reasonable. To address the questioned costs for the other contracts, the grantee conducted surveys of legal firms and other sources and obtained general price information for their services. However, the survey information the grantee provided to us was not supported by cost or price documentation, nor did it show that prices were for services comparable to the work required under the grant. Therefore, the surveys did not meet the cost analysis requirements specified by Title 40 CFR Part 30.

The grantee also obtained and provided copies of the contracts for the legal consultant and its subcontractor that were not available for our review during our field work. This contract information should help the grantee ensure that contract terms and conditions are met in the future.

Because the grantee provided information showing that \$2,665 of costs claimed for one of the contracts were fair and reasonable, we reduced the questioned costs accordingly. Total contract costs questioned were reduced from the \$367,415 originally questioned in the discussion draft to \$364,750.

### ***Travel and Other Direct Costs Did Not Meet Documentation Requirements or Cost Principles***

The grantee claimed \$19,928 in travel and other direct costs that were not allowable because documentation requirements or cost principles specified by Title 2 CFR Part 230 were not met. The claimed costs included \$18,265 that did not meet documentation requirements and \$1,663 that did not meet federal cost principles. Title 2 CFR Part 230, Appendix A specifies that costs need to be allocable and adequately documented to be allowable under the grant. Title 2 CFR Part 230, Appendices A and B provide the principles for determining the allowability of costs.

The grantee claimed travel and other direct costs of \$18,265 without vouchers, purchase orders, or other documentation showing the purpose and approval of the costs. In preparation for the examination, the grantee's bookkeeper subsequently prepared vouchers detailing these costs based on available receipts. However, these vouchers were signed by neither the personnel that incurred the costs nor the approving official. According to Title 2 CFR Part 230, Appendix A, costs need to be allocable and adequately documented to be allowable under the grant. The grantee's internal policy, approved by the board of directors on July 20, 2005, also requires that all travel expenses relevant to the project be submitted on a travel voucher to the treasurer. Because the

documentation prepared for the examination did not show that the costs were approved or met requirements of the grantee's policy, we could not determine whether the costs were authorized and allocable to the grant. As a result, we questioned the \$18,265 as not allowable.

The grantee also claimed \$1,663 in costs that were not allowable under the cost principles established by Title 2 CFR Part 230, Appendices A and B. The unallowable costs consisted of the following:

- \$1,080 in costs that were miscoded as EPA project costs. The grantee confirmed that the costs were not allocable to the grant. As discussed previously, Title 2 CFR Part 230, Appendix A, specifies that costs must be allocable to the award in order to be allowable.
- \$300 incurred for Native American dancing entertainment at an educational event hosted by the grantee. Title 2 CFR 230 Appendix B, Paragraph 14, specifies that costs of entertainment, including amusement, diversion, and social activities, are unallowable.
- \$283 incurred for a television purchased as a raffle prize for an educational event hosted by the grantee. According to 2 CFR Part 230, Appendix B, Paragraph 1.f(3), costs of promotional items and memorabilia, including models, gifts, and souvenirs, are unallowable.

In response to the discussion draft, the grantee provided vouchers that were retroactively signed by the individuals that incurred the costs. However, these revised vouchers were not signed by the approving official. Therefore, we continue to question the costs until these expenditures have been formally approved by the appropriate official.

### ***Financial Status Reports Are Not Supported by Accounting System Data***

The grantee's FSR was not supported by accounting system data, as required under Title 40 CFR Part 30. The grantee claimed total outlays of \$460,297 for the period ended September 30, 2008, in its January 2009 FSR. However, the grantee was only able to provide accounting records for \$388,849 of incurred costs under the grant. Therefore, the total outlays reported in the FSR were overstated by \$71,448, based on the supporting accounting system data. According to the grant coordinator, the FSR was prepared based on copies of contractor invoices she received and travel and miscellaneous expense totals provided by the bookkeeper. The grant coordinator explained that the discrepancy between the FSR and accounting records may have been caused by a delay in recording some costs in the accounting system that were included in the FSR. However, since the grant coordinator did not maintain the supporting data and calculations for the FSR, the grantee was unable to reconcile the difference between the outlays reported in the FSR and the accounting records.

Under Title 40 CFR Part 30.21(b)(1), the grantee must make accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant. Title 40 CFR 30.21(b)(2) requires that grantees maintain records that adequately identify the source and application of funds provided for financially assisted activities. Therefore, the grantee should improve its FSR preparation process to ensure these federal reporting and financial management requirements are met.

This issue was discussed with the grantee during our site visit. The grantee submitted a revised FSR to the EPA on April 28, 2009, to reflect the \$388,849 recorded in the accounting system for the period ended September 30, 2008.

## Conclusion

Based on the findings above, the grantee does not meet the minimum requirements for a financial management system. The findings also indicate that the grantee may not have the capability to manage the grant and future EPA awards. Therefore, EPA should have special conditions imposed on the current grant and all future awards of EPA funds as outlined in Title 40 CFR Part 30.14. Title 40 CFR Part 30.14, *Special Award Conditions*, states:

*... if an applicant or recipient has a history of poor performance; is not financially stable; has a management system that does not meet the standards prescribed in Circular A-110; has not conformed to the terms and conditions of a previous award; or is not otherwise responsible, EPA may impose additional requirements as needed, provided that such applicant or recipient is notified in writing as to: the nature of the additional requirements, the reason why the additional requirements are being imposed, the nature of the corrective action needed, the time allowed for completing the corrective actions, and the method for requesting reconsideration of the additional requirements imposed.*

The special conditions should include (1) payment on a reimbursement basis, and (2) EPA review and approval of reimbursement requests prior to payment.

## Recommendations

We recommend that the Regional Administrator, EPA Region 9:

1. Disallow and recover \$384,678 in questioned costs under the grant. If the grantee provides adequate documentation to meet the appropriate federal financial management requirements or demonstrates that the contract costs are fair and reasonable, the amounts to be recovered should be adjusted accordingly.

2. Require the grantee to:
  - a) Improve its procurement process to ensure compliance with Title 40 CFR Part 30.
  - b) Improve its internal controls to ensure that costs claimed meet documentation requirements and cost principles specified by Title 2 CFR Part 230.
  - c) Establish procedures to ensure that future FSRs are supported by accounting system data.
3. Require that the following special conditions be included for the grant and future EPA awards to the grantee until the Region determines that the grantee has met all applicable federal financial and procurement requirements:
  - a) Payment on a reimbursement basis.
  - b) Review and approval by the EPA project officer of reimbursement requests including all supporting documentation for the claims prior to payment.

## **Region 9 and Grantee Comments**

We issued a discussion draft to Region 9 and the grantee on October 14, 2009, to verify the factual accuracy of our information. We held exit conferences with Region 9 and the grantee on October 28, 2009, to obtain verbal comments on the discussion draft.

The Region did not have any comment on the findings and recommendations during the exit conference.

Prior to the exit conference, the grantee provided additional documentation as support for the questioned costs identified in the discussion draft and stated that more documentation is forthcoming. The grantee stated during the exit conference that it is capable of maintaining the grant to meet federal financial management requirements. The grantee also said that it has already made improvements to ensure procurement policies are followed, purchase records meet federal financial management requirements, and all future FSR filings are prepared from current accounting records. According to the grantee, the improvements include the coordination between its grants administrator and treasurer or accountant to ensure that all future FSRs are based on the current accounting records.

## **OIG Response**

Our position on the findings and recommendations remains unchanged. We made minor changes to the report as appropriate based on the additional documentation provided by the grantee in response to the discussion draft. However, the grantee has not demonstrated that it has implemented corrective actions that will ensure that the financial management requirements specified by Title 40 CFR Part 30 and Title 2 CFR Part 230 will be met in the future.

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

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	7	Disallow and recover \$384,678 in questioned costs under the grant. If the grantee provides adequate documentation to meet the appropriate federal financial management requirements or demonstrates that the contract costs are fair and reasonable, the amounts to be recovered should be adjusted accordingly.	U	Regional Administrator, Region 9		\$385	
2	8	Require the grantee to: <ul style="list-style-type: none"> <li>(a) Improve its procurement process to ensure compliance with Title 40 CFR Part 30.</li> <li>(b) Improve its internal controls to ensure that costs claimed meet documentation requirements and cost principles specified by Title 2 CFR Part 230.</li> <li>(c) Establish procedures to ensure that future FSRs are supported by accounting system data.</li> </ul>	U	Regional Administrator, Region 9			
3	8	Require that the following special conditions be included for the grant and future EPA awards to the grantee until the Region determines that the grantee has met all applicable federal financial and procurement requirements: <ul style="list-style-type: none"> <li>(a) Payment on a reimbursement basis.</li> <li>(b) Review and approval by the EPA project officer of reimbursement requests including all supporting documentation for the claims prior to payment.</li> </ul>	U	Regional Administrator, Region 9			

<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

**Appendix A**

***Distribution***

Regional Administrator, Region 9  
Director, Office of Wastewater Management, Office of Water  
Director, Office of Wastewater Management - Municipal Services Division,  
Office of Water  
Director, Office of Grants and Debarment  
Director, Grants and Interagency Agreements Management Division  
Agency Follow-up Official (the CFO)  
Agency Follow-up Coordinator  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Region 9 Audit Follow-up Coordinator  
Region 9 Public Affairs Office  
Chairman, Walker Lake Working Group  
Acting Inspector General