



At a Glance

Why We Did This Audit

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), conducted this audit to determine whether labor-charging practices at the Oregon Health Authority's Public Health Division (PHD) comply with federal requirements. The OIG also sought to determine the effect of any noncompliance on amounts PHD claimed under EPA grant awards.

The Oregon Health Authority has received EPA funding in such areas as the Drinking Water State Revolving Fund, Public Water System Supervision and Lead-Based Paint.

This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Ensuring the safety of chemicals and preventing pollution.*
- *Working toward a sustainable future.*

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Oregon Health Authority's Prior Labor-Charging Practices Under EPA Grants Did Not Meet Requirements

What We Found

The Oregon Health Authority's PHD did not always comply with federal labor-charging requirements. Prior to May 2014, PHD charged labor, fringe benefits and indirect costs to its Drinking Water State Revolving Fund, Public Water System Supervision and Lead-Based Paint grants based on budget allocations rather than actual activities performed. Also, employee certifications for those charging solely to one grant were not sufficient.

PHD's practice prior to May 2014 of charging labor hours based on budget allocations rather than actual activities, as well as insufficient employee certifications, resulted in more than \$12 million in unsupported costs.

The Code of Federal Regulations (CFR), in 2 CFR Part 225, requires that where employees work on multiple activities or cost objectives, labor charges must be based on the after-the-fact distribution of an employee's actual activity. Labor charges should also be supported by employee-signed personnel activity reports or the equivalent. A periodic certification of time charges is also required for those employees working solely on one grant. Oregon's statewide online system allows employees to override the assigned codes and enter hours based on actual activity. However, despite state guidance, prior to May 2014, PHD employees did not use the override function. PHD staff and employees said they were unaware of the override function.

In response to an EPA administrative review, PHD updated its employee time reporting guidance, and starting in May 2014, PHD employees began properly reporting costs. However, we still question as unsupported the \$12,136,214 in labor, fringe benefits and related indirect costs claimed by PHD on EPA grants prior to May 2014.

Recommendations and Recipient's Response to Draft Report

We recommend that the Regional Administrator, Region 10, disallow and recover \$12,136,214 of unsupported labor and related fringe benefits and indirect costs claimed prior to May 2014, unless Oregon PHD can provide support for the labor charges. The region should also identify and recover any unsupported costs prior to May 2014 from any other PHD-administered EPA grants not covered by this audit. PHD concurred with the findings, but did not agree with the recommendation to disallow the labor costs, noting it provided a comparative analysis of payroll charges to support its position, plus it is now in full compliance with grant requirements. We acknowledge that PHD's labor-charging practices are currently in compliance with requirements, but the analysis provided does not support that labor costs prior to May 2014 meet federal requirements. Region 10 did not respond to the draft report and understands it has the opportunity to respond to the final report. The recommendations remain unresolved.