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United States General Accounting Office  
Washington, DC 20548

January 30, 2004

The Honorable James M. Inhofe  
Chairman, Committee on Environment  
and Public Works  
United States Senate

Subject: *Grants Management: EPA Actions Taken against Nonprofit Grant Recipients in 2002*

Dear Mr. Chairman:

The Environmental Protection Agency (EPA) awards over one-half of its budget, or about \$4 billion, annually in grants.<sup>1</sup> At the end of fiscal year 2002, EPA was providing funding to 4,100 grant recipients, with \$245.4 million, or nearly 6 percent of its awarded grant dollars, going to nonprofit grant recipients. Congressional hearings in 1996 and 1999 cited concerns with the grants management capabilities of nonprofit grantees. Specifically, the 1996 hearing raised questions about nonprofit grant recipients' use of federal funds for lobbying. The 1999 hearing cited concerns with the ability of nonprofit grantees to manage their grants,<sup>2</sup> because, for example, many nonprofit organizations do not have staff with accounting backgrounds. Often, their grants are too small to be covered under the requirements of the Single Audit Act.<sup>3</sup> In response to such concerns, EPA has included lobbying restrictions in grant agreements, issued guidance and policies on grantee oversight, and has attempted to improve nonprofit grantees' grants management with a 1-day training course and follow-up instructional videotape specifically designed for nonprofit grant recipients.

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<sup>1</sup>Federal financial assistance includes grants, cooperative agreements, loans, loan guarantees, scholarships, and other forms of assistance. For simplicity, we are referring to all financial assistance as "grants."

<sup>2</sup>40 C.F.R. Part 30 contains grant management requirements for recipients including nonprofit organizations.

<sup>3</sup>The Single Audit Act Amendments of 1996, Pub. L. No. 104-156, 110 Stat. 1396 (codified at 31 U.S.C. §§ 7501-7507), requires grantees to have an audit of their financial statements and federal awards or a program specific audit if they spend \$300,000 or more in federal awards in a fiscal year. The Office of Management and Budget (OMB), as authorized by the act, increased this amount to \$500,000 in federal awards as of June 23, 2003.

However, as we reported in August 2003,<sup>4</sup> nonprofit grant recipients continue to have problems managing their grants.<sup>5</sup> These problems have led EPA to recommend actions to correct specific problems, such as maintaining records to track staff time, obtaining a required audit, and improving a financial management system. In some cases, these problems led EPA to take more significant actions against nonprofit grant recipients, such as issuing suspension orders, holding payments, and designating grantees as high-risk.

As a result of continuing concerns about the problems that nonprofit grant recipients have had in managing their grants, you asked us to provide supplementary information on the grants management performance of nonprofit grantees. Specifically, this report discusses (1) grants management problems EPA identified with nonprofit recipients in 2002, (2) corrective actions EPA recommended to address these problems, and (3) EPA's more significant actions taken against specific nonprofit grant recipients.

To obtain this information, we relied on the results of our analysis of EPA's oversight of grant recipients conducted in calendar year 2002. As part of this effort, we reviewed the records of 1,232 in-depth grantee reviews EPA conducted. EPA conducts in-depth reviews to analyze grantees' compliance with grant regulations and specific grant requirements.<sup>6</sup> For each of these in-depth reviews, we developed and answered a standard set of questions concerning the grantee and the findings of the review.<sup>7</sup> We also obtained and analyzed additional information from EPA on the nonprofit grant recipients who received significant actions, including background information on the organizations and any results of EPA actions. For each of these grant recipients, we summarized EPA's information on the problems identified, the corrective actions recommended, significant actions taken, and the results of EPA's actions, if provided. Enclosure I describes the types of problems EPA identified in its 1,232 in-depth reviews and provides examples of these problems. Enclosure II provides specific details on 15 nonprofit grant recipients that EPA took a significant action against in 2002.

## **EPA Identified Many Problems with Nonprofit Grant Recipients**

According to our analysis of EPA's calendar year 2002 in-depth reviews, EPA identified 276 problems with nonprofit grantees. EPA identified these problems in the 245 reviews it conducted of nonprofit grant recipients. These reviews

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<sup>4</sup>U.S. General Accounting Office, *Grants Management: EPA Needs to Strengthen Efforts to Address Persistent Challenges*, [GAO-03-846](#) (Washington, D.C.: Aug. 29, 2003).

<sup>5</sup>For additional information on nonprofit grantees and EPA's oversight of them, see, U.S. General Accounting Office, *Environmental Protection: EPA's Oversight of Nonprofit Grantees' Costs Is Limited*, [GAO-01-366](#) (Washington, D.C.: Apr. 6, 2001).

<sup>6</sup>EPA refers to these in-depth reviews as advanced monitoring. EPA conducts these reviews either at the grantee's location (on-site) or at EPA's office or another location (off-site). In 2002, EPA also contracted with private firms to perform reviews of a limited number of grantees as part of a pilot program.

<sup>7</sup>For detailed methodology, see [GAO-03-846](#), app. I.

represented 20 percent of EPA’s 1,232 in-depth reviews.<sup>8</sup> The identified problems included inadequate accounting systems, failure to obtain approved indirect cost rates, and insufficient documentation to support sole-source contracts and other expenditures charged to the grants. Table 1 describes the five most frequently identified types of problems with nonprofit grant recipients.

**Table 1: Most Frequently Identified Problems with Nonprofit Grant Recipients, 2002**

Problem	Number of problems	Examples of this type of problem
Technical issues	49	The grantee was behind in the progress of its work.
Written procedures	41	The grantee’s written policies or procedures were either missing or inadequate.
Procurement	38	The grantee lacked documentation to support sole-source contracts and did not report its efforts to encourage procurement from disadvantaged businesses.
Progress reports	29	The grantee’s progress report was late, or it did not include all the necessary information.
Personnel/payroll	28	The grantee did not track the amount of time its employees spent on specific grant activities or did not have appropriate staff resources to perform the grant activities.

Source: GAO’s analysis of EPA’s in-depth reviews.

EPA identified at least one problem in almost half of its reviews of nonprofit grant recipients. Table 2 shows the number of problems identified per in-depth review for nonprofit grant recipients.

**Table 2: Number of Problems Per In-depth Review of Nonprofit Grant Recipients, 2002**

Number of problems identified	Number of reviews	Percentage of reviews
0	124	51
1	51	21
2	34	14
3	15	6
4	8	3
5	6	2
6	2	1
7	2	1
8	3	1
<b>Total</b>	<b>245</b>	<b>100</b>

Source: GAO’s analysis of EPA’s in-depth reviews.

Our analysis of EPA’s 2002 in-depth reviews also identified similar grants management problems with other types of recipients including states, native American tribes, local governments, universities, and others (see GAO-03-846, app. III).

### **EPA Recommended Corrective Actions to Resolve More than Half of the Problems Identified**

Overall, EPA recommended that nonprofit grant recipients take corrective action in response to an identified problem in approximately 66 percent of the in-depth reviews we analyzed. For example, EPA found that a nonprofit grant recipient needed to have a Single Audit conducted for 2001 and 2002. EPA recommended that the recipient immediately arrange to have these audits conducted. For another nonprofit grant recipient, EPA found that the recipient received funding from multiple sources but did not maintain records to track the staff time that was

<sup>8</sup>In 2002, EPA conducted 135 reviews of the nonprofit recipients on-site and 110 off-site.

allocated to each of these grants. EPA recommended that the recipient develop and use timekeeping records that meet the standards outlined in the Office of Management and Budget's (OMB) circular.<sup>9</sup> Table 3 shows the number of nonprofit grant recipient problems identified by type of problem, compared with the number of corrective actions EPA recommended.

**Table 3: Comparison of Nonprofit Grant Recipient Problems with EPA's Recommended Corrective Actions, 2002**

Problem	Number of problems <sup>a</sup>	Number of corrective actions	Percentage of problems with corrective action
Accounting	18	16	89
Administrative	12	7	58
Approval of modifications	1	0	0
Conflict of interest	4	1	25
Cost sharing	1	0	0
Financial expenditures	13	10	77
Indirect costs	7	6	86
Internal controls	11	10	91
Lobbying	0	0	N/A
Missing required audit	2	2	100
Personnel/payroll	28	20	71
Procurement	38	29	76
Program income	1	0	0
Progress reports	29	16	55
Property management	3	3	100
Quality assurance	5	2	40
Subagreements	1	1	100
Technical issues	49	17	35
Terms and conditions of work	8	1	13
Travel	4	4	100
Written procedures	41	36	88
<b>Total</b>	<b>276</b>	<b>181</b>	<b>66</b>

Source: GAO's analysis of EPA's in-depth reviews.

<sup>a</sup>See enclosure I for a description of problems identified in EPA's in-depth reviews.

Our analysis of EPA's 2002 in-depth reviews found that for all types of grant recipients (nonprofits, states, native American tribes, local governments, universities, and others), EPA recommended corrective actions for about half the problems it identified (see GAO-03-846, app. III).

### **EPA Took Significant Actions against Some Nonprofit Grant Recipients**

We also found that EPA took 32 significant actions against 15 different nonprofit grant recipients. These significant actions are shown in table 4.

<sup>9</sup>OMB has issued three circulars defining allowable costs for different types of grant recipients: A-21, A-87, and A-122.

**Table 4: Significant Actions EPA Took Against Nonprofit Grant Recipients, 2002**

Type of significant action	Description of significant action	Number of significant actions
Grant termination/annulment or novation (or transfer)	EPA cancels the grant, or transfers it to a different recipient.	1
Disallowance of costs	EPA disallows a recipient's expenditures when the agency determines that the recipient did not spend its grant funds in accordance with federal cost principles or its particular grant agreement.	7
Suspension order	EPA requires a recipient to stop work and take action to minimize its grant-related expenditures until it resolves EPA's areas of concern.	5
Payment hold	EPA decides it will not make any more payments to a recipient until the recipient has resolved an area of concern.	6
High-risk designation/imposition of special grant conditions	EPA designates the recipient as high risk and places certain requirements on further grant work, such as having EPA approve all expenditures before the recipient receives a reimbursement.	5
Referral for investigation	EPA requests that its Inspector General conduct an audit of the recipient.	3
Threat to take action	EPA threatens to take a significant action, such as disallowance of costs or a payment hold.	5
<b>Total</b>		<b>32</b>

Source: GAO analysis of EPA documents.

Note: EPA can also debar a grant recipient by declaring that the particular organization or individual is not eligible to receive grants for a specific period of time. We did not find any instances where EPA debarred grant recipients in 2002.

In addition to taking significant actions against nonprofit grant recipients EPA also took actions against state and tribal grant recipients in 2002 (see GAO-03-846, app. III).

Of the 32 significant actions EPA took against nonprofit grant recipients in calendar year 2002, 23 resulted from problems identified during in-depth reviews. EPA took the other nine significant actions as a result of problems identified during grantee oversight other than in-depth reviews and investigations by the EPA Office of Inspector General (OIG). Our analysis found that of the 36 nonprofit grant recipients that had three or more problems identified during in-depth reviews, EPA took at least one significant action in nine cases, or 25 percent of the cases. Nonprofit grant recipients that received significant actions were often cited as having multiple problems related to their accounting systems, internal controls, or financial expenditures. While the problems identified with some of these nonprofit recipients have been resolved through corrective and significant actions, information provided by EPA indicates that many problems remain unresolved. For example, some recipients have improved their financial management systems as a result of recommended actions, while in other instances a number of questionable grant expenditures are still in the audit resolution process.<sup>10</sup> We have enclosed detailed information concerning the circumstances surrounding 15 nonprofit grant recipients that had significant actions taken against them in 2002 (see encl. II).

We provided a draft of this report to EPA for comment. In response, we received oral comments from EPA officials including the Director of the Grants Administration Division. The EPA officials generally agreed with the information presented in our report and provided some clarifying comments that we incorporated into this report, as appropriate.

<sup>10</sup>EPA noted that for some of the cases with questionable costs still in the audit resolution process, grant recipients have challenged the OIG's findings under EPA's grant dispute procedures.

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We performed our work from December 2003 through January 2004 in accordance with generally accepted government auditing standards. As we agreed with your office, unless you publicly announce the content of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will be sending copies of this report to the congressional committees with jurisdiction over EPA and its activities; the Honorable Mike Leavitt, EPA Administrator; and the Honorable Joshua B. Bolten, Director, Office of Management and Budget. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report or need additional information, please contact me at (202) 512-3841. Key contributors to this report were Andrea Wamstad Brown, Christopher Murray, Rebecca Shea, Carol Herrnstadt Shulman, and Amy Webbink.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John B. Stephenson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John B. Stephenson  
Director, Natural Resources  
and Environment

**Description of Problems Identified in EPA's 1,232 In-depth Reviews**

<b>Problem</b>	<b>Description of problems included in EPA's in-depth reviews</b>
Accounting	Any failure of a grantee's financial management system or shortcomings in the procedures it used to ensure the proper accounting of federal funds. For example, EPA found cases in which a grantee <ul style="list-style-type: none"> <li>• could not compare budgeted amounts with actual expenditures,</li> <li>• did not properly reconcile report balances to the general ledger, or</li> <li>• did not separately track funds for different grants.</li> </ul>
Administrative	Cases in which a grantee's record keeping system was inadequate.
Approval of modifications	Any instance in which a grantee had begun performing tasks outside its original scope of work without seeking prior approval from EPA.
Conflict of interest	Cases in which a grantee, using grant funds, entered into a contract with a closely affiliated organization.
Cost sharing	Cases in which a grantee failed to appropriately track and document its cost-sharing expenditures.
Financial expenditures	Cases in which a grantee did not sufficiently document expenses to determine the eligibility of costs or charged ineligible costs to the grant.
Indirect costs	Cases in which a grantee did not have an approved indirect cost rate or indirect cost allocation plan.
Internal controls	Cases in which a grantee did not adequately segregate financial responsibilities.
Lobbying	No instances of lobbying problems.
Missing required audit	Cases in which a grantee did not have its required audit performed or had not submitted a copy of its audit to EPA.
Personnel/payroll	Problems included cases in which a grantee did not track the amount of time its employees spent on specific grant activities, or did not have sufficient staff resources to perform the grant activities.
Procurement	Cases in which grantees lacked documentation to support sole-source contracts and did not report their efforts to encourage procurement from disadvantaged businesses.
Program income	In one case, a grantee generated income through the use of grant funds but did not manage the funds in accordance with the grant agreement; and in another, the grant agreement did not allow the grantee to generate such income.
Progress reports	Instances in which a grantee's progress report was missing or late, or did not include all the necessary information.
Property management	Cases in which the grantee did not properly control property, such as equipment.
Quality assurance	Instances in which a grantee needed to revise its quality assurance plan. Quality assurance plans are required to ensure the quality of data collected during the grant work.
Subagreements	Cases in which a grantee did not properly monitor subgrantees, or when a subgrantee's files were incomplete.
Technical issues	Cases in which a grantee was behind in the progress of its work.
Terms and conditions	Cases in which a grantee was not meeting the terms and conditions of a grant agreement. Terms and conditions vary, depending on the grant agreement and in some cases overlap with the other problem categories.
Travel	Cases in which a grantee lacked documentation to support travel expenditures or did not obtain written approval from the appropriate official prior to incurring travel expenses.
Written procedures	Cases in which a grantee's written policies or procedures were either missing or inadequate.

Source: GAO's analysis of EPA's in-depth reviews.

## **Detailed Information on 15 Nonprofit Grant Recipients that Received Significant EPA Actions in 2002**

This enclosure provides detailed information on 15 nonprofit grant recipients against which the Environmental Protection Agency (EPA) took significant actions in 2002. The information provided includes background on the recipient and the grant(s) received, descriptions of EPA identified problems and recommended corrective actions, EPA's significant actions, the results of these corrective and significant actions, and other information. This information is presented for each grant recipient in alphabetical order. We developed this information from our analysis of EPA's 2002 in-depth reviews, as well as other information we obtained from EPA during our audit work for the August 2003 report on EPA's grants management.<sup>11</sup> Additionally, EPA provided specific information on these 15 grant recipients.

### **Academy of Natural Sciences**

During the week of October 22, 2001, officials from EPA's Region 3 conducted an on-site evaluation of the Academy of Natural Sciences (the Academy) and identified several concerns with the Academy's financial management and procurement systems. A subsequent review by officials from EPA's Office of Grants and Debarment on February 27, 2002, found that these concerns had been addressed through the appropriate corrective actions. However, after evaluating the costs charged to the grant, Region 3 disallowed costs in the amount of \$51,085 because of a conflict of interest and lack of competition of a contract agreement, and lack of supporting documentation in accounting records. The Region 3 Administrator reversed the decision to disallow these costs on January 22, 2003.

### Background

The Academy is a nonprofit organization governed by a board of trustees. It was founded in 1812 for the purpose of advancing knowledge about the natural world. The Academy is based in Philadelphia, Pennsylvania, and is affiliated with the Patrick Center for Environmental Research and the Estuarine Research Center.

#### Grants Received

- The Academy received a grant for \$500,000 (X-983127-01) in June 1999, for the Urban Rivers Awareness Program; a pilot program for scientific research, hands-on and virtual educational experiences and exhibit design. The recipient received an amendment in June 2000 for an additional \$665,000, bringing the total award to \$1,165,000. This grant was closed in July 2003 after Region 3 received all required deliverables.
- The Academy received a grant for \$698,500 (X-983127-02) in August 2001 for the Urban Rivers Awareness Program. The objectives of this grant were to test watershed education methods and to have a sustainable, effective

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<sup>11</sup>GAO-03-846.



## Enclosure II

program. The recipient received an amendment for this grant in August 2003 and work on the grant is ongoing.

- The Academy received a grant for \$76,569 (CB-983683-01) in August 2002 for the Chesapeake Bay Program. The purpose of this grant was to assist in characterizing chemical contaminant impacts in tributaries to the Chesapeake Bay. Work on this grant is ongoing, and the project is scheduled to last until June 2004.

### Description of Problems and Corrective Actions

The reviewers found problems in the following areas with the Academy's management of grant number X-983127-01:<sup>12</sup>

#### Conflict of Interest

- The Academy entered into a contract for work with an entity whose sole owner was previously employed by the recipient. More importantly, the scope of work for the contract was submitted on August 11, 2000, but the employee was not separated from the organization until September 29, 2000, and the contract was signed on October 19, 2000. The reviewers determined that this was a conflict of interest and that the contract had not been awarded competitively, and disallowed the costs of the contract in the amount of \$44,900.

#### Financial Expenditures

- The Academy could not provide adequate documentation to support a charge to the grant in the amount of \$6,185. The reviewers disallowed these costs.

#### Procurement

- The Academy's procurement files did not include documentation of competitive awards or cost or price analyses for contracts awarded, although its policies and procedures required this documentation. The reviewers recommended that the recipient perform a cost or price analysis for the remaining contracts awarded under the EPA grant.

### EPA's Significant Actions

EPA notified the Academy that, based on its evaluation of costs incurred under grant number X-983127-01, it was disallowing \$51,085 for nonconformance with EPA grants management regulations. This amount included the \$44,900 from the noncompetitive contract the Academy had awarded to a previous employee and \$6,185 in costs for

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<sup>12</sup>These problems were those with corrective actions outstanding after the February 2002 review by officials from the Office of Grants and Debarment. They do not represent all of the grants management deficiencies identified during the Region 3 October 2001 review.

## Enclosure II

which the Academy could not provide adequate supporting documentation. EPA requested that a check for this amount be mailed to Region 3 within 30 days.

### Results of Corrective and Significant Actions, and Other Information

In February 2002, officials from EPA's Office of Grants and Debarment found that the Academy had addressed the problems with its financial and procurement systems identified by Region 3 officials. However, the Academy appealed the decision to disallow \$51,085 in costs. The Regional Administrator for Region 3 reversed the decision to disallow these costs on January 22, 2003. EPA indicated that this decision was made after reviewing additional information and supporting documentation submitted by the Academy for the disallowed costs.

## **American Public Works Association**

On January 30, 2002, officials from EPA's Office of Grants and Debarment conducted an on-site, in-depth review of a grant with the American Public Works Association (the Association). The reviewers found a number of problems including unallowable costs related to alcoholic beverages included as part of meal expenses. EPA reported that the Association took corrective action before the recipient was formally notified.

### Background

The Association is a nonprofit organization governed by a 17-member board of directors. The Association is an international educational and professional association of public agencies, private sector companies, and individuals that provide goods and services related to public works. It has offices in Kansas City, Missouri and Washington, D.C., and is affiliated with the Canadian Public Works Association.

#### Grants Received

- The Association received a grant for \$55,000 (X-82741801-2) in May 1999 to inform its members and other interested parties about certain federal stormwater regulations. EPA reported that the workshops the Association hosted were successful, and the program generated enough income for the recipient to complete the work without drawing all of the grant funds available. The grant was closed in June 2003.

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

#### Financial Expenditures

- The Association's policies allowed alcoholic beverages to be included as part of meal expenses that in some cases were paid by the grant. EPA recommended that the recipient examine all meal expenses paid for by federal funds, and reimburse the appropriate accounts.

#### Procurement

- The Association had not filed reports of its efforts to select disadvantaged businesses for grant activities. EPA recommended that the recipient implement internal control policies and procedures within 30 days, including maintaining documentation, to ensure compliance with the grant's terms and conditions regarding the selection of these businesses. EPA also recommended that the recipient begin submitting its required report to EPA within 90 days.

## Enclosure II

- The Association was unable to provide documented evidence of a cost or price analysis being conducted for advertising services. The Association was purchasing space in its own official magazine. However, the reviewers could not find documentation supporting or justifying the award of the noncompetitive contract for advertising services. EPA recommended that the recipient perform and document a cost or price analysis for every procurement action using federal funds. EPA also required the recipient to construct contract files that include a sole source justification in all noncompetitively awarded contracts.

### EPA's Significant Actions

Following the review, EPA provided the Association with a letter documenting its concerns and asking the recipient to provide a corrective action plan within 30 days. These corrective actions included examining all meal expenses paid for by federal funds, and reimbursing the appropriate accounts.

### Results of Corrective and Significant Actions, and Other Information

EPA noted that the Association began taking action to address its concerns on compliance with requirements for selecting disadvantaged businesses and justifying noncompetitive contracts. Additionally, the Association's accounting staff began removing alcoholic beverage charges from the grant accounts. EPA reported that the recipient took corrective action before it was formally notified.

## **Association for Commuter Transportation/Transportation Demand Management Institute**

On July 11, 2002, an official from EPA's Office of Grants and Debarment conducted a prereview in preparation for an on-site review of a grant with the Transportation Demand Management Institute (the Institute). The reviewer found that the Institute actually had no paid employees, but rather employees of Urban Trans Consultants, an associated for-profit company, were contracted to work on the grant. As a result of the conflicts of interest that were apparent with this company, EPA warned the Institute that it was considering whether to issue a suspension order unless the recipient responded within 10 days.

The response provided to EPA did not satisfy all concerns regarding the apparent conflicts of interest, and EPA asked for additional information. EPA conducted an on-site, in-depth review of the recipient on October 9, 2002. As a result of findings identified during the on-site review, EPA decided to novate (i.e., transfer) the grant from the Institute to the Association for Commuter Transportation (the Association).

### Background

The Association is a nonprofit organization based in Denver, Colorado, and governed by an 18-member board of directors. The Association's purpose is to support its members in their efforts to enhance mobility, improve air quality, and conserve energy through transportation demand management activities. The Institute is a charitable foundation established by the Association to conduct research and provide educational opportunities to the membership and public. The executive committee of the Association also serves as the board of directors for the Institute.

### Grants Received

- The Institute received a grant for \$69,750 (X-82893401-0) in April 2001 to redesign and update a Web site that would educate and inform key constituencies and stakeholders in the Commuter Choice Initiative. The grant has resulted in the Commuter Choice Web site, [www.commuterchoice.com](http://www.commuterchoice.com). The grant was closed in November 2003.
- The Institute received a grant for \$150,000 (X-82964601-0) in March 2002 to benefit the public by expanding awareness of transportation choices, especially for commuters. The grant resulted in a conference and the Commuter Choice Web site; and was transferred to the Association with a remaining balance of \$12,987.

### Description of Problems and Corrective Actions

During the prereview, reviewers identified the following concerns with the Institute's management of grant number X-82964601-0:

### Conflict of Interest

- The reviewer was concerned about the relationship between the Institute and Urban Trans Consultants, a for-profit company. In its grant application, the Institute gave the impression that it had its own staff and budget. However, during his discussion with the Institute's associate director, the reviewer learned that the organization did not actually have any paid employees, but rather contracted for the work of staff employed by Urban Trans Consultants. Additionally, the executive director of the Institute was the president of Urban Trans Consultants. EPA's primary concern was that the affiliate relationships with interlocking officers and directors created apparent conflicts of interest, especially when those with the apparent conflicts of interest awarded and managed the contracts. EPA asked the Institute to provide information on its financial statements, how the grant and all contracts paid with grant funds had been administered and by whom, its indirect cost rate proposal, and the relationships between the Association, the Institute, and Urban Trans Consultants.

### EPA's Significant Actions

Based on its concerns regarding potential conflicts of interest between the Institute and Urban Trans Consultants, EPA notified the Institute that it was considering whether to impose a suspension order. The suspension order would take effect if the Institute did not provide specific information within 10 days. The Institute responded to EPA's concerns, but it did not satisfy the questions that had been raised during the prereview, according to EPA. EPA asked the Institute for additional information that, if not provided within 10 days, would result in the suspension order being imposed. EPA also asked to meet with the recipient. EPA conducted an on-site review of the Institute on October 9, 2002. Based on the findings identified during the review, EPA transferred the grant to the Association. EPA determined that this transfer would allow for a more appropriate structure and relationship between Urban Trans Consultants, the Association, and EPA.

### Results of Corrective and Significant Actions, and Other Information

EPA reported that, as of October 2003, the grant is being transferred to the Association, with a remaining balance of \$12,987.

### **Calcasieu League for Environmental Action Now, Inc.**

On May 31, 2002, an official from EPA's Region 6 conducted an off-site evaluation of a grant with the Calcasieu League for Environmental Action Now. The reviewer determined that the recipient was not making progress on the grant work or meeting the terms and conditions of its grant. The reviewer warned the recipient that if it continued to not use its grant funds, EPA would not extend the grant. Information provided by EPA indicated that it has found the recipient noncompliant with its grant, and it will not be allowed to apply for any future grants.

#### Background

The Calcasieu League for Environmental Action Now, Inc. is a nonprofit community group governed by five board members and five officers. The organization is a group of private citizens who are affected by the North Ryan site in Lake Charles, Louisiana, that is on the Superfund National Priority List. The grantee is affiliated with the Calcasieu Estuary Task Force and the Calcasieu Local Emergency Planning Committee.

#### Grants Received

- The recipient received a grant for \$50,000 (1-98658201-0) in January 2001 to hire independent technical advisors to help interpret and comment on site-related information generated by the state agency or EPA. The grantee has not produced any results, and the grant's project period is scheduled to end in January 2004.

#### Description of Problems and Corrective Actions

The reviewer found problems in the following areas:

##### Accounting

- The recipient did not keep budget records.

##### Procurement

- The recipient had not submitted reports documenting compliance with disadvantaged business contracting requirements.

##### Progress Reports

- The recipient had not submitted the required progress reports.

##### Technical Issues

## Enclosure II

- The recipient had not expended any funds, and the grant work was not on schedule.

### Terms and Conditions

- The recipient had not submitted the required financial status reports.

### EPA's Significant Actions

EPA documentation indicated that repeated efforts to assist the recipient with its grant activities had failed. A Region 6 official warned the organization that at a minimum, it needed to submit the required quarterly progress reports and that EPA would not extend the grant if the organization continued to not use its funds.

### Results of Corrective and Significant Actions, and Other Information

As a result of EPA's warnings, the Region 6 reviewer noted that the recipient began sending in "no progress" reports the following quarter. According to additional EPA documentation, the recipient has not used the grant funds and has failed to produce the agreed upon deliverables. EPA has found the organization was noncompliant with the grant and informed the recipient that it cannot apply for any future grants.



## Central States Air Resource Agencies Association

In July 2002, EPA's Office of Inspector General (OIG) issued a draft audit of costs claimed under two grants awarded to the Central States Air Resource Agencies Association (the Association). The draft audit identified a number of problems with the recipient's management of its funds. The OIG notified Region 6 of the findings, at which time EPA warned the Association that it was considering whether to impose a suspension order. EPA also designated the recipient as high-risk and imposed special conditions on future grant work.

Additionally, the EPA Region 6 project officer for these grants conducted a number of reviews throughout 2002. On September 5, 2002, the Association's staff visited with EPA to submit corrective documents in response to the OIG audit. The EPA reviewer found additional problems and decided to continue the recipient's high-risk status until the audit issues were resolved, as well as informing the recipient that new awards would be postponed. EPA reported that the Association began to take action in a number of areas.

In March 2003,<sup>13</sup> the OIG published its audit of the costs claimed under these grants. The OIG questioned \$1,644,618 in recipient claims. As of January 2004, the OIG's findings are in the audit resolution stage.

### Background

The Association is a nonprofit organization governed by an 11-member board of directors. The purpose of the organization is to promote interstate collaboration on air issues among the states of the central United States through a multistate organization. The recipient is affiliated with the Central Regional Air Planning Association and is located in Oklahoma City, Oklahoma.

### Grants Received

- The Association received a grant for \$255,000 (X-996940-01) in May 1998 to fund a regional multistate organization. The grant was subsequently amended to total \$2,226,243, and resulted in the establishment of a multistate organization to promote the exchange of information on controlling air pollution among the states of Arkansas, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, Oklahoma, and Texas, and other interested parties. The organization provided a unified regional voice for the air quality agencies in the central states. It also provided training and performed other activities necessary to support the development of sound air pollution control policy.

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<sup>13</sup>EPA Office of Inspector General, *Costs Claimed by Central States Air Resource Agencies Association Under EPA Assistance Agreement Nos. X996940-01 and X986516-01*, Report No. 2003-1-00087 (Washington, D.C.: Mar. 31, 2003).

## Enclosure II

- The Association received a grant for \$420,000 (X-986920-01) in September 2001 to continue funding the multistate organization for training and to provide a forum for interstate ozone issues. The grant resulted in maintaining the operations of the multistate organization to promote the exchange of information between the states and interested parties in the central United States. Training was provided on basic principles and practices of air pollution control, inspection, technical writing, and air quality modeling. The recipient also provided information and support to member states and interested parties on technical and policy issues related to sound air pollution control policy.
- The Association received a grant for \$500,000 (X-986516-01) in April 2000 and an amendment for an additional \$500,000 in April 2001 to fund a regional planning body for the central states. The grant resulted in establishing an infrastructure for a regional planning body, including both states and tribes, to address the 1999 Regional Haze Rule. Modeling, monitoring, implementation and control strategies, communication, emissions inventory and international workgroups were formed with representation from states and tribes in the central United States. Training, emissions inventory, and modeling activities were initiated to support regional haze analyses.

### Description of Problems and Corrective Actions

The OIG and Region 6 reviewer found problems and recommended corrective actions in the following areas:<sup>14,15</sup>

#### Accounting

- The OIG found that the Association had claimed outlays that did not agree with the general ledger, which led the OIG to question all \$1,644,618 in costs claimed under these two grants.
- The OIG recommended that EPA require the Association modify its financial management system to meet federal requirements. Modifications were to, among other things, ensure that financial results are current, accurate, and complete; include written procedures to determine reasonableness, allocability, and allowability of costs; and include accounting records that are supported by adequate source documentation.
- The OIG also recommended that EPA suspend work under the grants and make no new awards until the Association could demonstrate that its accounting practices were consistent with federal requirements.

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<sup>14</sup>The OIG findings presented represent those identified in its final report for grant numbers X-996940-01 and X-986516-01, see EPA Office of Inspector General, Report No. 2003-1-00087.

<sup>15</sup>A Region 6 official conducted on-site reviews of this recipient on March 22, April 12, and August 9, 2002, and an off-site review on September 5, 2002.

## Enclosure II

### Financial Expenditures

- The OIG found that it was unable to evaluate the claimed direct costs because the Association improperly charged all indirect costs to one of its grants. The OIG recommended that EPA recover all grant funds that could not be supported within 180 days.

### Indirect Costs

- The OIG and Region 6 reviewer found that the Association did not develop an indirect cost rate to allocate costs benefiting multiple projects and to distinguish between direct and indirect costs.

### Personnel/payroll

- The OIG found that the Association had an inadequate labor distribution system. Specifically, labor claimed under the EPA grants was not based on actual hours worked. Employees prepared time sheets but did not identify any grant projects or final cost objectives. Also, the organization did not use the time sheets to record salary costs in the general ledger, but instead, charged all employee salaries, including vacation, holiday, and sick leave to one grant. Region 6 officials recommended that the recipient implement an adequate labor tracking system as soon as possible.
- The Region 6 reviewer found that the Association's staff and facilities were not appropriate to handle the grant work.

### Procurement

- The OIG found that the Association did not competitively procure equipment and services and did not perform a cost or price analysis for these purchases. The OIG recommended that EPA recover the costs of \$575,743 for equipment and services unless the organization ensured that federal requirements had been met.

### Progress Reports

- The Region 6 reviewer found that the required progress reports were not always being submitted on time and did not always include the required financial information.

### Technical Issues

- The Region 6 reviewer found that grant work was not on schedule.

## Enclosure II

### Terms and Conditions

- The Region 6 reviewer found that the Association had not complied with its grants' terms and conditions.

### Written Procedures

- The OIG found that the Association did not have written accounting procedures regarding the allocation of joint costs.

### EPA's Significant Actions

Region 6 notified the Association that as a result of the issues identified in the draft OIG report it was considering issuing a suspension order unless the organization responded appropriately. It also notified the recipient that, in lieu of issuing a suspension order before the recipient responded, EPA would designate the organization as high risk and impose special conditions on future grant work. These special conditions included the following:

- requiring EPA approval for each request for reimbursement of grant expenses, based on clearly defined cost documentation, and
- postponing additional Clean Air Act awards until resolution of the audit issues.

After the additional issues identified during the Region 6 review, EPA reinforced the consequences of noncompliance with statutory and regulatory requirements. EPA also informed the Association that its status on the high-risk list would continue, as would the postponement of new awards until the audit issues had been resolved.

### Results of Corrective and Significant Actions, and Other Information

EPA documentation noted that the Association had begun to take action in a number of areas. It had submitted new financial management, labor distribution, personnel, procurement, property management, and travel policies for EPA approval. Additionally, it had hired a consultant to assist it in developing an adequate labor tracking system. EPA indicated that these actions were sufficient for the Association to continue its grant activities under the high-risk conditions without EPA imposing the threatened suspension order. In its March 2003 report on its audit, the OIG noted that the Association did not agree with the OIG's findings, but the OIG continued to question the organization's claims for \$1,644,618. As of January 2004, the OIG's findings are in the audit resolution stage.

## **Consumer Federation of America Foundation**

On March 21 and 22, 2002, officials from EPA's Office of Grants and Debarment conducted an on-site, in-depth review of the Consumer Federation of America Foundation (the Foundation). The reviewers found a number of problems with the Foundation's grants management, which led EPA to take four significant actions against it: issuing a suspension order, issuing a payment hold, identifying unallowable costs, and requesting that the OIG audit the Foundation. EPA reported that the Foundation was restructured and that EPA imposed special terms and conditions on April 25, 2002. The OIG indicated that its audit was completed in December 2003, and it is currently awaiting comments from the Foundation. It expects to receive these comments in late January 2004, and will issue the report soon afterwards.

### Background

The Foundation was established in 1972 as a nonprofit organization to complement the work of the Consumer Federation of America (the Federation), a lobbying organization. The Foundation, assists state and local organizations, provides information to the public on consumer issues, and conducts consumer research projects. The Foundation's State and Local Resource Center provides training and technical assistance on governance and resource development. It also awards grants for organization development and equipment. The Center convenes an annual caucus for state and local leaders and, through a Web site and regular mailings, serves as a clearinghouse for information. The Foundation is governed by the same 40-member board of directors as its affiliated organization, the Federation. The Foundation's executive director is the executive director of the Federation, while its project managers and comptroller are also employed by the Federation. The Foundation used Federation employees to run a centralized grants management system.

### Grants Received

- The Foundation received a grant for \$1,806,708 (X-825612-01) in July 1997 to create a national radon public service announcement to increase voluntary home radon testing and mitigation. The grant resulted in television, radio, and print public service announcements yielding 1,094,237 broadcasts/advertisements. The grant also resulted in the development of materials for National Radon Action Week and strategies to increase awareness from consumer studies and research. The grant was closed in December 2002.
- The Foundation received a grant for \$1,737,532 (X-825837-01) in October 1997 to create a national media campaign to reduce childhood exposure to environmental tobacco smoke. The grant resulted in a number of television, radio, and print public service announcements. It also used telephone and e-mail promotions to reach 1,500 media directors and

## Enclosure II

- participated in two national press conferences publicizing the Smoke Free Home Campaign. The grant is waiting for closeout as of January 2004.
- The Foundation received a grant for \$225,161 (X-828814-01) in February 2001 to promote the environmental, economic, and health benefits of buying energy-efficient products. The grant resulted in, among other things, training for 16 states and local affiliates for public outreach activities; publishing an article on the benefits of energy efficiency; and maintaining and enhancing a Web site ([www.buyenergyefficient.org](http://www.buyenergyefficient.org)). The grant was closed in November 2003.
  - The Foundation received a grant for \$359,000 (X-829178-01) in August 2001 to educate consumers about reducing their risks from radon and other indoor air quality issues by promoting testing and mitigation. This grant is still active.
  - The Foundation received a grant for \$434,928 (XA-831201-01) in September 2003 to increase public awareness of the environmental, economic, and health benefits of energy-efficient products and practices. The grant is still active and is expected to result in community outreach to inform consumers and to support the Web site.

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

#### Conflict of Interest

- The Foundation awarded a sole-source contract to the Federation for administrative and personnel services. It appeared to the reviewers that hundreds of thousands of dollars were flowing between the two entities for labor, fringe benefits, and indirect costs without signed or written agreements. Additionally, the parent company is a lobbying organization, but the reviewers had difficulty separating the two entities. EPA required the Foundation to establish written agreements for all services paid for with grant funds, provide written justifications for sole-source contracts to the parent company, and explain how sole-source contracts did not violate the code of ethics. Further, the reviewers recommended that the recipient completely separate the two entities.

#### Financial Expenditures

- The Foundation was paying one of its consultants at \$600 per hour, significantly above the rate allowed by federal regulations—which EPA indicated was \$498.32 a day or \$62.29 per hour. EPA recommended that the recipient provide documentation of hourly rates for consultants over the allowable limit, and then reimburse the grants for consultant costs that were above the limitation.

## Enclosure II

### Indirect Costs

- The Foundation did not have a current indirect cost rate approved by EPA as required by the terms and conditions of the grant. The recipient was instead operating under an old rate. The reviewers were also concerned that the Foundation had no employees. Therefore all of the wages that were being charged as indirect costs were actually for contract labor from the Federation. EPA recommended that the recipient develop an indirect cost rate proposal and reimburse the grants for the mis-charged indirect costs.

### Personnel/payroll

- The Foundation and Federation employees did not fill out a time sheet or personnel activity report, and the Foundation allocated labor costs using budget estimates. The reviewers determined that this allocation method was not allowable for supporting these expenses. EPA recommended that the recipient complete personnel activity reports for personnel whose compensation was charged to the grants. EPA also stated that any personnel charges incurred on EPA grants that could not be supported with the appropriate documentation would be disallowed and would have to be repaid to the appropriate grant.

### Procurement

- The reviewers did not find evidence to document that a cost or price analysis was being performed for most contracted services. EPA recommended that the recipient document a cost or price analysis, including a sole-source justification, for procurements using federal funds.
- The Foundation had not complied with disadvantaged business procurement requirements, and had not submitted the required reports within 30 days of the end of each federal fiscal year. EPA recommended that the recipient, within 30 days, implement procedures to ensure compliance with these requirements. EPA also recommended that the recipient begin filing the required reports within 90 days.

### Written Procedures

- The Foundation did not have written travel policies. EPA recommended that the recipient either adopt federal travel guidelines or develop its own travel policy. EPA also required that all charges in excess of the federal per-diem rates be repaid to the appropriate grant.

### EPA's Significant Actions

As a result of the findings identified during the on-site review, EPA notified the Foundation that it was suspending work and temporarily withholding funds for

## Enclosure II

grant numbers X-825612-01, X-825837-01, X-828814-01, and X-829178-01 and would notify the Financial Management Center not to make further payments until EPA's concerns with the recipient's grants management had been resolved. These included concerns with potential unallowable costs leading to EPA's recommendations that the Foundation reimburse the grants for the mis-charged indirect costs and consultant costs that were above the limitation. EPA informed the recipient that the suspension order required it to stop project work and take all reasonable steps to minimize costs incurred on the project. The suspension order was scheduled to be in effect for 45 days. Additionally, EPA forwarded a copy of its on-site report to the OIG and requested that the OIG perform an audit of the Foundation. EPA asked that the OIG perform tests on all grant related financial transactions to confirm that the grant funds were being used properly and noted there appeared to be acquisition versus assistance issues with at least one of the grants.

### Results of Corrective and Significant Actions, and Other Information

EPA did not provide specific information regarding the status of a number of the corrective actions requested of the Foundation. However, EPA indicated that the Foundation provided documentation of hourly rates for consultants over the allowable limit, and reimbursed the grants for consultant costs above the limit before the suspension order was lifted. EPA also noted that the Foundation was restructured, and EPA placed special terms and conditions on the recipient on April 25, 2002. Also, the OIG indicated that the audit EPA requested was completed in December 2003, and it is currently awaiting comments from the recipient. The OIG expects to receive these comments in late January 2004, and will issue the report soon afterwards.



## **Coordinating Committee for Automotive Repair**

In May 2002, the OIG issued a special report on the Coordinating Committee for Automotive Repair's (the Committee) grants management.<sup>16</sup> The OIG identified a number of findings, including that the Committee had not accounted for \$2,026,837 in costs claimed under its three grants, which led EPA to take four significant actions against it: issuing a suspension order, issuing a payment hold, disallowing costs, and imposing special conditions on the recipient. The Committee disputed the suspension order in January 2003. The Grants Administration Division and the Office of Enforcement and Compliance Assurance are still working with the Committee to try to resolve the issues identified in the OIG report.

### Background

The Committee is a nonprofit organization governed by a board of directors with approximately 10 members. Also referred to as CCAR-Greenlink, it is one of 10 compliance assistance centers funded by EPA's Office of Enforcement and Compliance Assurance to provide compliance assistance information to the automotive industry via the Internet. This information is designed to assist members of the industry to better understand their environmental responsibilities and to help them achieve compliance with environmental program requirements.

### Grants Received

- The Committee received a grant for \$1,765,000 (CX82437601) in September 1995 to, among other things, provide multimedia environmental compliance information and pollution prevention ideas that can help shop owners comply with environmental requirements. The grant resulted in focus groups to identify the best ways to deliver information to participants in the industry. The grant also funded baseline surveys to document the level of compliance and measure the success of compliance assistance efforts and the development of a Web site.
- The Committee received a grant for \$90,000 (CX82573201) in October 1997 that resulted in the Committee's working with three states to develop state-specific information relating to auto repair and make this material available through the compliance assistance center's Web site.
- The Committee received a grant for \$333,945 (CX82836601) in September 2000 to conduct an outreach project to owners and technicians employed in the automotive service and collision industry. The grant resulted in maintaining and improving the center's Web site, continuing to conduct outreach about the site and applicable environmental regulations, developing educational modules, and responding to thousands of industry

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<sup>16</sup>EPA Office of the Inspector General, *EPA Cooperative Agreements Awarded to the Coordinating Committee for Automotive Repair*, Report No. 10960-2002-M-000017 (Washington, D.C.: May 29, 2002).

## Enclosure II

and public inquiries regarding environmental compliance and pollution prevention activities. EPA reported that the Web site has been successful and comments from users have been positive.

### Description of Problems and Corrective Actions

The OIG found problems and made recommendations in the following areas:

#### Accounting

- The Committee identified indirect costs in its budget; however, its accounting system treated all costs as direct.
- The Committee did not appropriately distribute costs between federal and nonfederal activities.
- The Committee's accounting system was deficient because it did not have adequate controls to prevent the submission and reimbursement of ineligible expenses for travel.
- The OIG was unable to reconcile the Committee's total program outlays claimed with the recipient's accounting system. These differences totaled \$8,580 for the three grants.
- The OIG recommended that the Committee modify its financial management system to meet federal regulations. Modifications were to ensure that financial results are current, accurate, and complete; include written procedures to determine reasonableness, allocability, and allowability of costs; and include accounting records that are supported by adequate source documentation. EPA agreed with the OIG's recommendation and noted that it was requiring that the Committee have its new financial management system certified by a third-party auditor.

#### Financial Expenditures

- The Committee had not accounted for \$2,026,837 in costs claimed under its three grants. These included \$149,509 in ineligible payroll costs, such as a reduction in the number of hours for the executive director without a similar reduction in salary; expenses paid to the executive director in excess of the EPA-imposed ceiling; and holiday pay for the recipient's employees for holidays, which were not authorized in its written personnel policy. The remainder of the questioned amount consisted of \$1,877,328 in unsupported payroll, travel, equipment, printing/postage, rent, telephone, outreach, administration, Web/computer, and supply costs. Specifically, the OIG identified claims to EPA for alcoholic beverages and trips for nonfederal activities on one of the grants.
- The OIG recommended that the Committee reconstruct the accounting records necessary to document its grant expenditures and that EPA recover all funds that could not be supported by the Committee's documentation. EPA agreed with this recommendation and asked the

## Enclosure II

recipient to provide documentation to substantiate the \$1,877,328 in unsupported costs. EPA noted that the recipient did not believe it was going to be able to fully reconstruct all of the requested accounting records, and responded that the individuals who claimed the unsupported costs could submit notarized affidavits.

- The OIG recommended that EPA recover all ineligible costs that did not meet Office of Management and Budget (OMB) requirements. EPA agreed with this recommendation and asked the Committee to pay back the \$149,509 in ineligible costs.

### Indirect Costs

- The Committee did not prepare indirect cost proposals as required by the terms and conditions of its grants. The OIG recommended that the recipient submit indirect cost proposals for 1995 to the present. EPA agreed with this recommendation.

### Personnel/payroll

- The Committee did not maintain adequate time records for all three grants. The recipient's employees maintained weekly records of work activity but did not usually identify the actual hours spent on the activities. In some cases, employees identified nonfederal activities but charged all salary costs to the grant. The OIG found that the Committee needed to develop a time distribution (or timekeeping) system that met federal regulations. EPA agreed with the OIG's recommendation and noted that it was requiring that the recipient have its new time distribution system certified by a third-party auditor.

### EPA's Significant Actions

EPA notified the Committee that, based on the OIG's findings, it was suspending work on grant number CX82836601 and temporarily withholding funds until the recipient had resolved EPA's concerns. The suspension order required the Committee to stop project work and to take all reasonable steps to minimize costs incurred on the project. The order was scheduled to be in effect for 45 days. Additionally, the recipient had to repay the \$149,509 in ineligible costs and provide documentation for the \$1,877,328 in unsupported costs from the three grants.

The OIG also recommended that EPA withhold further funding from the Committee until it received confirmation that the recipient had the financial management capability to manage its grant funds in accordance with federal regulations. EPA did not agree with this recommendation and in fact provided an additional funding increment to the recipient. EPA decided this on the basis that the Committee had accomplished important and effective work in the past. EPA also noted that two of the grants mentioned in the OIG report had been completed

## Enclosure II

and the third was nearing completion. However EPA decided to place special conditions on the Committee. These included:

- requiring the recipient to submit all requests for reimbursement to the project officer for approval, based on a detailed justification of the costs, and
- requiring the recipient to have appropriate staff take a grants management course within 6 months.

### Results of Corrective and Significant Actions, and Other Information

According to EPA, the Committee disputed the suspension order in January 2003, and the Grants Administration Division and the Office of Enforcement and Compliance Assurance are still working with the recipient to resolve the issues identified in the OIG report. The Committee submitted one of the three required indirect cost proposals in June 2002 and met one of the required special conditions when personnel attended a grants management course in August 2002. The recipient provided EPA with an independent auditor's report of its financial and time management systems. EPA responded in December 2003, requesting additional information or adjustments to the Committee's financial system in order to be eligible for federal assistance. EPA expects the Committee to respond to this request, in addition to providing information on the status of the OIG's recommendations to reconstruct accounting records and submit indirect cost proposals, by the end of January 2004. EPA documentation also indicated it had conducted an on-site review for grant number CX82836601, in June 2002. The reviewers did not identify further problems with the recipient's grants management but noted that progress of the work was falling behind, largely due to efforts to respond to the OIG's findings and recommendations.

In August 2002, the OIG issued another report related to the Committee in which it described oversight issues identified during its review.<sup>17</sup> The OIG found that EPA's lack of oversight contributed to the recipient's grants management problems. The project officer and grants specialist did not provide the necessary oversight to ensure the recipient managed its grants in accordance with federal regulations. Specifically, the project officer and grants specialist did not work together to monitor the Committee or follow recommended procedures in grant guidance, and the grants specialist was not responsive to repeated requests from the recipient for assistance in developing an indirect cost rate. The OIG reported that the project officer was aware that the recipient had not developed an indirect cost rate but allowed the grants to continue. The OIG concluded that adequate EPA oversight could have prevented reimbursing the Committee for ineligible and unsupported costs.

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<sup>17</sup>EPA Office of the Inspector General, *EPA's Lack of Oversight Contributed to Coordinating Committee for Automotive Repair's Grant Management Problems*, Report No. 10960-2002-M-000031 (Washington, D.C.: Aug. 22, 2002).

## **Engineers' Society of Western Pennsylvania**

On April 8, 2002, EPA used contracted staff to conduct an on-site, in-depth review of the Engineers' Society of Western Pennsylvania (the Society). The reviewers found a number of problems, including unallowable costs resulting from excessive salary expenses. The reviewers made recommendations to correct these problems, and EPA requested that the recipient submit a corrective action plan within 30 days. EPA noted that the Society was put on a corrective action plan and completed it on July 26, 2002.

### Background

The Society is a nonprofit organization governed by a 12-member board of directors, with eight consultants to the board. The organization is a membership society with the purpose of advancing the professions of engineering, architecture, and applied sciences through technical activities and public service. The Society is affiliated with 30 organizations: Association for the Advancement of Cost Engineering International; American Concrete Institute; Association for Facilities Engineers; American Institute of Chemical Engineers; American Institute of Mining, Metallurgy & Petroleum Engineers/Society of Mining; American Iron and Steel Institute; Association for Iron and Steel Technology; American Society of Civil Engineers; American Society of Heating, Refrigeration & Air Conditioning Engineers; American Society for Materials; American Society for Mechanical Engineers; American Society for Professional Estimators; American Society for Quality; Air & Waste Management Association; Construction Specifications Institute; Institute of Electrical & Electronics Engineers; Institute of Industrial Engineers; Institute of Packaging Professionals; Instrument Society of America; National Association of Corrosion Engineers; Project Management Institute; Pennsylvania Society of Professional Engineers; Society for Analytical Chemists of Pittsburgh; Society of Automotive Engineers; Society of American Military Engineers; Society of Fire Protection Engineers; Society of Plastics Engineers; Spectroscopy Society of Pittsburgh; Society of Women Engineers; and Tri-State Construction Users.

### Grants Received

- The Society received a grant for \$1,306,584 (827988-01) in September 1999 to disseminate social, economic, and statistical research. The grant resulted in a conference to present Brownfields research. The project has expired and is waiting for closeout as of January 2004.
- The Society received a grant for \$600,000 (830661-01) in September 2002 to conduct a Brownfields research conference. The grant resulted in a conference for the dissemination of technical, engineering, and economic and social science research on the issue of contaminated sites. The project has expired and is waiting for closeout as of January 2004.

## Enclosure II

### Description of Problems and Corrective Actions

The reviewers found problems with the management of grant number 827988-01 and made recommendations in the following areas:

#### Accounting

- The Society could not document that costs charged to the grant were disbursed before it requested reimbursement from EPA. For example, in one case the reviewers found a time sheet indicating that time was being charged to the grant, but they could not find documentation to support payment to the employee in the payroll register or a cancelled check. The reviewers recommended that the recipient provide documentation for the disbursement and ensure that expenditures for grant activities are disbursed before asking EPA for reimbursement.
- The Society classified costs from one of its contracts for labor as personnel. The reviewers recommended that the recipient reclassify these costs to the appropriate budget line item and ensure that they were allowable.
- In several instances, budgeted expenditures were exceeded by more than 10 percent. The reviewers recommended that the Society revise its procedures to ensure adherence to the approved budget, and receive approval from EPA for deviations greater than 10 percent.

#### Financial Expenditures

- The Society requested reimbursement for salaries at a rate greater than the actual salary rate of some of the employees. The reviewers concluded that the organization was reimbursed for more than the actual costs incurred related to the grant. The reviewers recommended that the recipient recalculate salary costs chargeable to all EPA grants based on the actual rates paid to employees. The difference between actual costs and the amount requested from EPA should be reimbursed. They also recommended that the recipient revise its policies to ensure that only the actual costs associated with federal grants were charged.
- The Society hired a professor at an hourly rate of \$100 per hour, which was higher than the allowable federal rate of \$62.29 per hour. The reviewers recommended that the recipient evaluate the amount paid to the professor and adjust it to more closely reflect a reasonable cost as defined in OMB regulations.

#### Indirect Costs

- The Society charged indirect costs to its grant but did not have an officially approved indirect cost rate from EPA. The reviewers recommended that the recipient develop an indirect cost allocation plan for EPA's review.

## Enclosure II

### Internal Controls

- The Society's general manager was responsible for approving all expenditures related to the grant, including authorizing his own timesheets and approving travel expense reports. The reviewers recommended that the recipient develop a policy to ensure that all expenditures receive approval from someone other than the person incurring the cost.

### Personnel/payroll

- The Society's time sheets contained a number of problems. At least one employee failed to sign time sheets for work conducted under the grant; in several instances time sheets had no supervisor's signature, indicating approval of the time charged to the grant; several time sheets were missing both the employee's and supervisor's signatures; and the time sheets of one individual were accumulated and submitted at one time for several months of activity associated with the grant. The reviewers recommended that the recipient implement new policies and procedures to ensure that the payroll system and time sheets met the requirements of OMB regulations.

### Procurement

- The Society entered into several sole-source contracts without having adequate justification. In one instance, the recipient did not request competing bids for audit services; in another, the recipient contracted with a local organization without providing a justification for the contract or maintaining evidence that it had conducted a cost or price analysis. The reviewers recommended that the recipient ensure compliance and proper documentation in accordance with federal regulations for all procurements.
- The Society's contract with one organization to obtain the services of an employee was not documented with a written agreement. The reviewers recommended that the recipient execute a written agreement with all consultants.
- The Society had not documented nor submitted the required reports to indicate compliance with disadvantaged business requirements. The reviewers recommended that the recipient document the steps taken to ensure compliance with these requirements and submit the necessary reports.

### Subagreements

- The Society did not require vendors and subcontractors to maintain records for the appropriate length of time. The reviewers recommended that the recipient ensure the compliance of subgrantees' policies and procedures.

## Enclosure II

### Terms and Conditions

- The Society was delinquent in filing at least one of its required financial status reports. The reviewers recommended that the recipient ensure compliance with its financial reporting requirements.

### Written Procedures

- The Society did not maintain a written policies and procedures manual for accounting, reporting, record retention, and other functions related to the administration of the grant. The reviewers recommended that the recipient develop and update policies and procedures to ensure compliance with grant requirements.

### EPA's Significant Actions

EPA requested that the recipient identify the actions it would take to address the findings and recommendations in the contractor's report, and the associated time frames of each action, in a corrective action plan provided to EPA within 30 days. While not specifically identified in the letter to the recipient, the contract's report stated that these corrective actions should include addressing the unallowable costs related to the excess salaries paid to some of the Society's employees.

### Results of Corrective and Significant Actions, and Other Information

Documentation provided by EPA indicated that the Society repaid the unallowable costs as part of its corrective action plan, which was completed on July 26, 2002; the grant is awaiting closeout as of January 2004.



## **Geothermal Heat Pump Consortium**

On March 7 and 8, 2002, officials from EPA's Office of Grants and Debarment conducted an on-site, in-depth review of the Geothermal Heat Pump Consortium (the Consortium). The reviewers stated that there were too many indicators of poor grants management and allowable cost issues to complete the review. These problems led EPA to take three significant actions against the Consortium: issuing a suspension order, issuing a payment hold, and requesting that the OIG audit the recipient. The OIG published an audit of the Consortium in September 2003 in which it questioned \$1,153,472 in costs claimed by the recipient.<sup>18</sup> The project is in the audit resolution process as of January 2004.

### Background

The Consortium is a nonprofit organization, founded in 1994, to implement the National Earth Comfort Program. This program is a collaborative effort between the Department of Energy, EPA, and private sector organizations interested in promoting the growth of energy-efficient, environmentally friendly heating and cooling technology. The Consortium has offices in Washington, D.C., and Columbia, Maryland, and is governed by a 14-member board of directors. The Consortium is a membership organization; its members include electric utilities, equipment manufacturers, architects, engineers, contractors, builders, energy service companies, and others. Members also include many national organizations, such as the Edison Electric Institute, Electric Power Research Institute, International Ground Source Heat Pump Association, National Rural Electric Cooperative Association, and the Association of Energy Engineers. According to EPA, the benefits of membership in the Consortium include, among other things, the opportunity to increase the awareness of GeoExchange (geothermal heat pump) technology, and member support through a variety of services and programs. EPA noted that the Consortium's Web site advertised the lobbying experience of its staff.

### Grants Received

- The Consortium received a grant for \$712,500 (X-828299-01) in June 2000 to provide financial support for increasing awareness of GeoExchange technology through public outreach and information dissemination. Activities under the grant included operation of the GeoExchange Information Center, maintenance of the Consortium's Web site, publication of a newsletter, attendance at conferences, and production of a national teleconference. The OIG published an audit of this grant in September 2003.

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<sup>18</sup>EPA Office of the Inspector General, *Geothermal Heat Pump Consortium, Inc. Costs Claimed Under EPA Assistance Agreement Nos. X828299-01 and X828802-01*, Report No. 2003-4-00120 (Washington, D.C.: Sept. 30, 2003).

## Enclosure II

- The Consortium received a grant for \$748,300 (X-82880201-0) in September 2001 to increase awareness of the benefits of geothermal heat pump technology by providing information to the public and conducting outreach to the educational sector. The OIG published an audit of this grant in September 2003; the project is in the audit resolution process as of January 2004.
- The Consortium received a grant for \$750,000 (X-83055901-0) in December 2002 for emission reductions with GeoExchange technology. EPA did not provide the results and current status of this grant.

### Description of Problems and Corrective Actions

The reviewers found problems in the following areas:

#### Accounting

- The lack of financial accounts set up to track the flow of funds made it impossible to determine the allowability and allocation of many charges.

#### Conflict of Interest

- The Consortium entered into contracts for services paid for by EPA funds with companies whose employees sat on the recipient's board of directors.

#### Financial Expenditures

- A bonus plan was available to all management personnel at the Consortium (all of the employees at the time of the review were management). Consortium staff earned the bonus by obtaining industry memberships as well as other funding (such as federal grants). These bonuses appeared to be paid with funds generated from the sale of memberships because the income all went to an unrestricted account. This was also the account out of which the lobbying tax and lobbying activity charges were paid. The reviewers believed that if it were determined that the membership revenues were program income, many of the charges to the grant would be unallowable.

#### Indirect Costs

- The Consortium did not have an approved indirect cost allocation plan as required by the terms and conditions of the grant agreement. Instead, the recipient was charging a flat 30 percent of salaries and wages to the grant.

## Enclosure II

### Procurement

- The Consortium's procurement files did not contain needed documentation (such as a cost or price analysis) for all contracts and for contracts with companies in which the recipient's staff had more than a minimal financial interest; the recipient needed to document that it had followed a competitive process.

### Program Income

- The reviewers noted that many of the benefits the Consortium offers to its members resulted from grant-related activities. Therefore, they were concerned that membership dues could be partially considered program income.

### EPA's Significant Actions

As a result of the concerns identified during the on-site review, EPA informed the Consortium that it was suspending work on the project and temporarily withholding funds. EPA notified the Financial Management Center not to make payments until EPA's concerns with the recipient's grants management had been addressed. The suspension order required the Consortium to stop project work and take all reasonable steps to minimize project costs. This order was scheduled to be in effect for 45 days. EPA also forwarded a copy of the preliminary report to the OIG, requesting an audit of the Consortium. EPA requested that the OIG perform tests on all grant-related financial transactions to confirm that the recipient was properly using federal funds.

### Results of Corrective and Significant Actions, and Other Information

As requested, the OIG conducted an audit of the Consortium's management of grant numbers X828299-01 and X828802-01, and published its findings on September 30, 2003. The OIG questioned \$1,153,472 of claimed costs because the Consortium did not comply with the federal rules, regulations, and terms of the agreements. Specifically, the OIG found that the Consortium's financial management system was inadequate because the Consortium did not separately identify the costs for all direct activities, account for program income generated by the activities funded by the grants, prepare or negotiate indirect cost rates, prepare written procedures for allocating costs to final cost objectives, maintain an adequate labor distribution system, provide adequate support for direct cost allocations, competitively procure contractual services or perform any of the required cost or pricing analyses, and comply with all reporting requirements. Regarding the finding that the Consortium's financial management system did not separately identify costs for direct activities, the OIG reported that the Consortium operated a membership organization that provided lobbying support for its members. The Consortium's lobbying effort included costs for outside legal counsel and legislative consultants, and the salary and expenses for Consortium

## Enclosure II

employees involved in lobbying activities. However, the OIG noted that the Consortium's financial management system was not structured to allow membership and lobbying activities to be treated as direct costs. The Consortium's employee time sheets did not include separate categories for either membership or lobbying labor, and the general ledger either did not use or include all accounts needed to accumulate all expenses related to membership and lobbying activities.

The OIG recommended that EPA evaluate the need for the grants with the Consortium, taking into consideration the fact that the recipient had other income to support these activities, and if the grants were not necessary, to annul the grants. If EPA determined that the grants were necessary, the OIG recommended that EPA recover the \$1,153,472 in unsupported costs, suspend work under the grants, and make no new awards until the Consortium demonstrated that its accounting practices were consistent with federal regulations, require the grantee to submit an indirect cost rate proposal, require the grantee to provide detailed documentation supporting its use of program income, and factor the program income into the reimbursement of any costs EPA determined were allowable from the two grants. The Consortium did not agree with the OIG's findings; its comments were included in the final report. EPA has indicated that the project is in the audit resolution process as of January 2004. Additional documentation provided by EPA noted that as a result of the issues identified by the OIG, EPA is (1) requiring the Consortium to submit all payment requests for EPA approval, and (2) holding additional funding until the audit issues are resolved.

## **National Association of Local Government Environmental Professionals**

On September 26, 2002, officials from EPA's Office of the Administrator met to discuss grant progress with an official from the National Association of Local Government Environmental Professionals (the Association). The EPA officials told the recipient that nonperformance of the activities within the scope of the grant and irregular submission of progress reports was unacceptable. EPA recommended negotiating new activities and targets and warned the recipient that if these activities were not completed and the targets were not met, the Office of the Administrator would turn the issue over to EPA's Grants Administration Division for appropriate action. Additional information provided by EPA indicates that the grant work has progressed on schedule since this meeting.

### Background

The Association, located in Washington, D.C., is a nonprofit organization governed by a 12-member board of directors. The Association represents local government personnel responsible for ensuring environmental compliance, and developing and implementing environmental policies and programs. The organization is affiliated with Spiegel and McDiarmid, Washington, D.C.

### Grants Received

- The Association received a grant for \$610,000 (827183-01) in September 1998 for the Showcase Community network project. The grant resulted in technical assistance and support for the Brownfields 'Showcase Communities' project. The grant is scheduled to expire in January 2004.
- The Association received a grant for \$160,000 (829111-01) in January 2002 to support transportation community partnerships for clean air. The grant provided for clean air innovation at the community level by supporting participants in a clean air transportation partnership program. The grant is scheduled to expire in January 2004.
- The Association received a grant for \$200,000 (830592-01) in September 2002 for a community revitalization initiative. The grant supported research for the promotion of new approaches in the cleanup and redevelopment of hazardous waste sites. The grant is still active as of January 2004.
- The Association received a grant for \$200,000 (831388-01) in September 2003. Additional funding is expected to bring this grant to a total award of \$1,400,000. The purpose of the grant is Brownfields training, research, and technical assistance. The grant has resulted in the creation of a Brownfields communities network providing technical assistance and training to local government officials and other key stakeholders. The grant is active as of January 2004.
- The Association received a grant for \$75,000 (GX828550-01-0). EPA expects work on this grant to be completed by March 2004.

## Enclosure II

### Description of Problems and Corrective Actions

The reviewers identified problems with the Association's management of grant number GX828550-01-0 in the following areas:

#### Financial Expenditures

- The Association had spent a large portion of the grant funds in relation to the amount of work that it had completed.

#### Progress Reports

- The Association was not submitting progress reports on a timely basis.

#### Technical Issues

- The Association was not on schedule with the progress of its work.

### EPA's Significant Actions

According to the documentation EPA provided, the reviewers told the Association that the September 26, 2002, meeting was a "last warning." They emphasized that the recipient had received several prior warnings, but EPA had not seen an improvement in performance. The reviewers said that they would negotiate new activities and target dates with the recipient, but if these were not met, the matter would be turned over to EPA's Grants Administration Division for appropriate action.

### Results of Corrective and Significant Actions, and Other Information

Additional information provided by EPA indicates that work on this grant has progressed on schedule since the September 2002 meeting. However, EPA also noted that a contractor performed a review of the Association's financial management system. EPA expects the review to be completed in late January 2004, and early indications are that the contractor identified problems that will require corrective action by the recipient.

## **National Environmental Education and Training Foundation**

From January 22 through 25, 2002, EPA contractor staff conducted an on-site, in-depth review of the National Environmental Education and Training Foundation (the Foundation). The reviewers found a number of problems, including an unallowable and duplicate travel expense in the amount of \$1,584.24, and made recommendations concerning these issues. EPA requested that the Foundation submit a corrective action plan within 30 days. A February 26, 2002, on-site review conducted by officials from EPA's Office of Grants and Debarment indicated that Foundation was generally in compliance with its administrative requirements and terms and conditions.

### Background

Located in Washington, D.C., the Foundation is a nonprofit organization founded in 1990 and governed by a board of directors with nine members and six honorary members. According to EPA, the Foundation's mission is to extend the contribution of environmental education and training to meet critical environmental protection needs.

#### Grants Received

- The Foundation received a grant for \$150,000 (828935-01) in April 2001 for watershed and television weather reporting. The grant resulted in helping the public to understand watersheds and the role they play in the health of aquatic ecosystems. The grant is in the closeout phase as of January 2004.
- The Foundation received a grant for \$10,000 (828015-01) in December 1999 for a resource guide to educate and train journalists and others in public education on consumer confidence reports involving drinking water. This grant is in the closeout phase as of January 2004.
- The Foundation received a grant for \$1,638,848 (827026-01) in September 1998 to target pesticides education to health care providers. The grant resulted in educating health-care providers and other professionals on pesticide related exposures and illnesses. This grant is in the closeout phase as of January 2004.
- The Foundation received a grant for \$195,780 (827807-01) in August 1999 for research and development of resources to advance environmental mentoring. The grant resulted in an enhancement of environmental and economic performance through linking the expertise of corporate environmental leaders. This grant is in the closeout phase as of January 2004.
- The Foundation received a grant for \$65,000 (826903-01) in September 1998 for an education backdrop on clean and safe water programs. The grant resulted in the development of an initiative to fill existing gaps in educational opportunities. This grant is in the closeout phase as of January 2004.

## Enclosure II

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

#### Accounting

- The Foundation's "cash on hand end of period" and "cash on hand beginning of period," as reported to EPA in the recipient's Federal Cash Transaction Report, did not agree with the general ledger. The Transaction Report cited a balance of \$0 for both periods, while the general ledger noted balances of \$18,689 and minus \$2,664, respectively. The reviewers recommended that the Foundation reconcile its general ledger accounts to ensure that its records and reporting amounts were correct within 30 days.

#### Financial Expenditures

- The Foundation incorrectly charged a travel expense of \$792.12 to its EPA grant. However, while attempting to correct the error, the Foundation instead charged the expense twice. The reviewers recommended that EPA disallow these expenses and that the recipient refund the amount of \$1,584.24 to the EPA grant.

#### Indirect Costs

- The Foundation did not have an approved indirect cost allocation plan, as required by the terms and conditions of the grant. The reviewers recommended that the recipient submit an indirect cost proposal within 60 days for approval, and negotiate its indirect cost rate with EPA.

#### Internal Controls

- The Foundation did not have proper separation of duties in the payroll, personnel, and accounts payable functions. The vice president of finance and administration was performing personnel and payroll functions. He also had check-signing authority, access to blank checks, and conducted bank reconciliations. The reviewers recommended the recipient separate these duties by having the president review the payroll each pay period and the bank reconciliation each month.

#### Progress Reports

- The progress reports for two out of the six grants were not filed at the appropriate times during the previous year. The terms and conditions of the grant agreement required quarterly submission of progress reports within 30 days of the reporting period. The reviewers recommended that



## Enclosure II

the Foundation establish procedures to ensure timely submission of progress reports within 30 days.

### EPA's Significant Actions

EPA requested that the Foundation provide EPA with a list of corrective actions to resolve the problems identified during the review, along with associated time frames for each action, within 30 days. As part of these corrective actions, the recipient was required to repay the grant \$1,584.24 for the amount charged to it in error.

### Results of Corrective and Significant Actions, and Other Information

Additional information provided by EPA indicated that the Foundation repaid the mis-charged amount and completed its corrective action plan. Also, a February 26, 2002, on-site review conducted by officials from EPA's Office of Grants and Debarment indicated that the Foundation was generally in compliance with administrative requirements and the terms and conditions of its grants.

## **National Environmental Policy Institute**

On January 15 and 16, 2002, officials from EPA's Office of Grants and Debarment conducted an on-site, in-depth review of the National Environmental Policy Institute (the Institute). The reviewers found a number of problems with the Institute's grants management, which led EPA to take two significant actions against it: issuing a payment hold and a suspension order. EPA also learned that the Institute was going to cease operations, and due to concerns about the proper expenditure of the remaining grant funds and the Institute's financial instability, EPA placed special conditions on the recipient to ensure that remaining grant funds were spent in an allowable manner. EPA reported that the Institute has ceased operations and that it transferred the remaining funds, amounting to \$381,353, to another recipient in February 2003.

### Background

The Institute was established as a nonprofit organization in 1993. The Institute's mission was to provide a framework for improving environmental policy and management; however, it has ceased operations.

#### Grants Received

- The Institute received a grant for \$2,000,000 (828769-01-0) in November 2000 to develop a telework and emissions trading study. The grant was transferred to the Global Environment and Technology Foundation in February 2003.

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

#### Accounting

- The Institute's accounting records did not identify the source and use of funds. EPA recommended that the recipient maintain a system of accounting records that adequately identified the source and use of funds provided for grant activities.
- The Institute did not have budget controls in place. EPA recommended that the recipient compare actual expenditures or outlays with budgeted amounts for each grant or subgrant.

#### Financial Expenditures

- The Institute was unable to provide adequate documentation to determine the allocability of a number of costs totaling at least \$1,237. For example, the reviewers noted one invoice for "Shirazi Dr. Cobb" in the amount of

## Enclosure II

\$198.20. The reviewers could not obtain an explanation for the 25 lunches charged on this invoice and could not determine if the money was spent for a grant purpose. In another instance, the reviewers found an invoice for “Shirazi Sheraton Hotels” in the amount of \$260.91. However, they found no source documentation for this invoice and could not determine if the money was spent for a grant purpose. EPA recommended that the recipient provide source documentation and explanations for the transactions.

### Missing Required Audit

- The Institute had not obtained its required Single Audit. EPA recommended that the recipient obtain this audit.

### Personnel/payroll

- The Institute received funding from multiple sources, but it did not maintain records (such as time sheets) to track the staff time that it allocated to its grants. EPA recommended that the recipient develop and use timekeeping records that meet the standards outlined in federal regulations.

### Procurement

- The Institute had not filed reports of its efforts to select disadvantaged businesses for grant activities. These reports were specifically required as a term and condition in the grant agreement. EPA recommended that the recipient file its required reports by February 15, 2002.

### Property Management

- The Institute did not have a fixed asset control system. EPA recommended that the recipient implement a fixed asset threshold or adopt the federal standard. EPA also recommended that the recipient maintain a fixed asset control system (1) providing detailed property records for assets acquired under a grant or subgrant, and (2) including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized use of these assets.

### Written Procedures

- The Institute did not have written policies or procedures for accounting, codes of conduct, procurement, travel, or record retention. EPA recommended that the recipient develop written policies and procedures that met the standards outlined by federal regulations.

## Enclosure II

EPA also recommended that the Institute require an employee to get training in grants management and that it provide additional financial support personnel to help ensure that new policies and procedures are enforced.

### EPA's Significant Actions

As a result of the concerns identified during the on-site review, EPA informed the Institute that it was suspending work on the project and temporarily withholding funds. EPA indicated that it was notifying the Financial Management Center not to make further payments until EPA's concerns with the recipient's grants management had been addressed and a corrective action plan was in place. The suspension order required the Institute to stop project work and take all reasonable steps to minimize project costs. This order was scheduled to be in effect for 45 days, and EPA requested that the recipient submit a corrective action plan identifying the actions to be taken and associated time frames within 30 days.

EPA learned that the Institute was considering ceasing operations. Based on this information, EPA informed the recipient that it was considering the issuance of another suspension order and requested a discussion of these concerns. After the Institute's decision to formally cease operations, EPA notified the organization that it was concerned about the proper expenditure of the remaining grant funds and the Institute's financial instability. These concerns led EPA to place special conditions on the Institute. Specifically,

- changing the method of payment from advance to reimbursement;
- requiring the recipient to submit all reimbursement requests for EPA approval and including a list of expenditures identifying task, vendors, and supporting documentation to show that the costs were authorized by the scope of work for the grant; and
- requesting that the recipient continue to submit Financial Status Reports.

### Results of Corrective and Significant Actions, and Other Information

EPA provided information indicating that the Institute was unable to formulate a corrective action plan to resolve the findings from the on-site review and that the Institute dissolved shortly after the suspension order was put in place. EPA reported that the Institute's remaining funds, amounting to \$381,353, were transferred to the Global Environment and Technology Foundation in February 2003.

## **Self Reliance Foundation**

On October 16 and 17, 2002, officials from EPA's Office of Grants and Debarment conducted an on-site, in-depth review of the Self Reliance Foundation (the Foundation). The reviewers identified a number of problems with the Foundation's grants management practices, which led EPA to take two significant actions against it: issuing a payment hold and classifying the Foundation as a high-risk recipient with special conditions on future grant work. EPA reported that while the Foundation has taken some corrective actions, it still has not complied with several terms and conditions; and as a result, the Grants Administration Division sought to terminate grant number X-82851401 as of December 31, 2003.

### Background

The Foundation is a nonprofit organization founded in 1979 to help Hispanics take advantage of opportunities for personal and community empowerment in the areas of health, women's issues, education, economic opportunities, science, environmental protection and access to new technologies. The Foundation operates the Hispanic Community Resource Helpline, the only national, multiservice, bilingual information and referral service in the United States. The organization is headquartered in Washington, D.C., and is governed by a board of directors with six members. It is affiliated with the Hispanic Radio Network.

### Grants Received

- The Foundation received a grant for \$75,000 (X-82851401) in September 2000 to provide outreach and education of pesticide exposure hazards to the Spanish-speaking agricultural community including farm workers, their families, growers, and the general public. The results of the grant are incomplete and EPA is seeking to terminate the agreement.
- The Foundation received a grant for \$50,000 (X-83041801-0) in September 2002 to create a Spanish language educational mass media and outreach program focusing on radon and asthma. The results of the grant are incomplete because work was just beginning when EPA imposed sanctions on the Foundation.
- The Foundation received a grant for \$21,232 (NE-98364501-0) in June 2002 to develop a bilingual exhibit to educate children about asthma and its environmental causes. EPA is waiting for a final progress report for this grant.

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

## Enclosure II

### Accounting

- The Foundation did not have a system in place to produce required financial reports or to reconcile the amount reported as disbursements to EPA with the general ledger. EPA recommended that the recipient develop a system within 60 days.
- The Foundation drew budgeted amounts at the beginning of the award periods before actually incurring the expenses. EPA recommended that the recipient immediately begin following EPA's guidelines for cash advances.

### Internal Controls

- The Foundation's operations lacked adequate segregation of duties. Specifically, one contractor had control over processing accounting transactions, balancing the general ledger, the checking account, the payroll log, and other financial and nonfinancial duties. EPA recommended that the recipient divide these responsibilities among various individuals within 60 days.

### Missing Required Audit

- The Foundation had not obtained its required Single Audit for 2001 and 2002. EPA recommended that the recipient immediately arrange to have these audits conducted.

### Personnel/payroll

- The Foundation's time sheets showed a number of problems: at least one employee failed to sign the time sheets related to grant activity; in several instances the time sheets did not show supervisory approval; none of the time sheets signatures' were dated; and one employee was paid without a time sheet so the reviewers were unable to determine if the employee's time was allocable to the grant. EPA recommended that the recipient implement new policies and procedures to ensure that its payroll system met the appropriate standards within 60 days.

### Procurement

- The Foundation did not document its efforts toward the selection of disadvantaged businesses for grant activities. EPA recommended that the recipient develop a system to ensure adherence to procurement policies regarding these vendors (including documentation) within 90 days.
- The Foundation was using EPA grant funds to make oral contracts and had no written contracts, no documentation of preaward review, and no contract monitoring system. EPA recommended that the recipient implement procedures to ensure adherence to procurement policies,

## Enclosure II

- including requests for proposals, and general procurement standards for sole-source solicitation within 30 days.
- The Foundation entered into a sole-source contract without providing an adequate written justification or evidence of a cost or price analysis. EPA recommended that the recipient immediately begin ensuring it made and documented grant procurements in accordance with federal regulations.

### Progress Reports

- The Foundation did not include required financial information in its programmatic reports. EPA recommended that the recipient immediately begin including this financial information in its reports.

### Property Management

- The Foundation's property management system did not include all fixed assets owned, and the reviewers were unable to determine if equipment had been purchased with federal funds. EPA recommended that within 120 days the recipient complete and update its property management system to include all of its fixed assets and other information required by EPA. EPA also recommended that the recipient take an accurate inventory and compare it with the general ledger and other records.

### Written Procedures

- The Foundation had not developed a formal and comprehensive policies and procedures manual. EPA recommended that, within 120 days, the recipient develop policies and procedures covering, among other things, accounting and reporting, budget, fixed assets, procurement, and a code of conduct.

### EPA's Significant Actions

As a result of these problems, EPA placed a payment hold on the Foundation's account by instructing the Financial Management Center not to make further payments until the concerns had been resolved. EPA also classified the Foundation as high-risk and placed the following special conditions on it:

- changing the method of payment from advance to reimbursement;
- requiring the recipient to submit written procurement and contract administration procedures for EPA approval;
- requiring the recipient to submit the procedures it would follow to ensure that professional service contracts are awarded competitively for EPA approval; and
- requiring the recipient to submit a code of conduct and procedures for EPA's approval.

The special conditions also included statements that:

- No contractor or consultant of the recipient may participate in the selection, award, or administration of a contract awarded to their firm;
- The recipient must take steps to make its relationship with all consultants or contractors funded by EPA grant money clear to EPA officials involved in overseeing the grants;
- The recipient's procurement files must contain documentation of a cost or price analysis for all contracts awarded with EPA grant funds;
- The recipient must establish written procedures to ensure that all costs being charged to the grants are properly controlled and documented and that the procedures must include an independent review of expenses incurred by consultants or contractors; and
- The recipient must comply with the terms and conditions of its grant agreements regarding selection of disadvantaged businesses.

EPA requested that the Foundation submit a corrective action plan and provide documentation that it had an adequate financial management system in order for the special conditions to be discontinued.

#### Results of Corrective and Significant Actions, and Other Information

Documentation provided by EPA noted that in May 2003, the Foundation issued accounting and financial management policies and procedures that addressed many of the findings identified in the on-site review. However, EPA also reported that the Foundation still had not complied with several terms and conditions and failed to submit requested items and required reports. Specifically, the Foundation had not submitted the following items for approval: the annual progress report for grant number X-82851401; contract administration policies and procedures; procedures to ensure that all costs are reasonable, allocable, and allowable; a utilization report for disadvantaged business activities; a sole-source procurement policy requiring that written justification for selections be included in the file; procedures to solicit quotes from disadvantaged businesses and documentation of their selection; and procedures to ensure timely submission of progress reports. EPA reported that as a result of these deficiencies, the Grants Administration Division sought to terminate grant number X-82851401 as of December 31, 2003.



## **Tribal Association on Solid Waste and Emergency Response**

On July 1, 2002, EPA received a report contractor staff who conducted an on-site, in-depth review of the Tribal Association on Solid Waste and Emergency Response (the Association). The reviewers found a number of problems with the Association's grants management, which led EPA to take three significant actions against it: issuing a suspension order, issuing a payment hold, and requesting that the OIG audit the Association. The OIG published its audit in September 2003 and questioned all costs claimed by the Association as unsupported.<sup>19</sup> EPA reported that the grantee has taken measures to correct the deficiencies identified during the on-site review and the audit, and it lifted the suspension order. The project is in the audit resolution process as of January 2004.

### Background

The Association is a nonprofit organization located in Washington, D.C. Its purpose is to preserve and restore the health and environment of Indian and Alaskan native communities. The Association also has as its purpose ensuring that environmental policies address the needs and values of tribes, with respect to solid waste, emergency response, and Superfund issues. The Association is a membership organization consisting of over 100 federally recognized tribes and is governed by a 12-member board of directors.

#### Grants Received

- The Association received a grant for \$3,360,000 (CR82718101-0) in September 1998 to research the effects of waste contamination on human health and the detection of hazardous substances in tribal communities. The Association is still conducting work for this grant.

### Description of Problems and Corrective Actions

The reviewers found problems and recommended corrective actions in the following areas:

#### Accounting

- The Association did not have a system in place to produce required financial reports or to reconcile the amount reported as disbursements to EPA with the general ledger. The reviewers recommended that, within 60 days, the Association develop a system that includes line items for: annual budget, monthly and year-to-date disbursements, and unused or overexpended balances. The reviewers further recommended that the

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<sup>19</sup>EPA Office of the Inspector General, *Costs Claimed by the Tribal Association on Solid Waste and Emergency Response Under EPA Assistance Agreement No. CR827181-01*, Report No. 2003-4-00119 (Washington, D.C.: Sept. 19, 2003).

## Enclosure II

Association use this information to produce the required financial reports and make any adjustments necessary to reconcile the general ledger amounts.

- The Association advanced annual budgeted amounts to contractors at the beginning of the contract periods. The reviewers recommended that the Association limit cash advances to contractors to the minimum amount necessary to carry out required activities.

### Internal Controls

- The Association's financial operation and other functions lacked adequate segregation of duties. Specifically, one employee had control over processing, authorizing, and approving accounting transactions. This individual also managed procurement and grant activities, maintained the general ledger, and performed other duties. The reviewers recommended that the Association assign responsibility for approval and authorization of accounting transactions to someone other than this employee. Additionally, the reviewers recommended that the Association hire other personnel to perform certain functions, such as grants management, procurement, and financial reporting.

### Personnel/payroll

- The Association's personnel files did not include all necessary and updated information about its employees. The reviewers recommended that the Association maintain personnel files that are complete and updated for current and terminated employees.

### Procurement

- The Association did not have documentation supporting its efforts to select disadvantaged businesses. The reviewers recommended that the Association implement procedures to document its efforts for selecting these vendors within 90 days.
- The Association awarded a contract for a multiyear research project using a sole-source solicitation, without documenting a preaward review. The reviewers recommended that the Association implement procedures to ensure compliance with procurement policies and EPA requirements within 90 days.

### Progress Reports

- The Association did not prepare or submit in a timely way the various reports required by EPA, such as its annual progress report. The reviewers recommended that the Association follow EPA's guidelines in preparing and submitting required reports.

## Enclosure II

### Property Management

- The Association's property management system did not account for all fixed assets, nor had it conducted a physical inventory. The reviewers recommended that the Association complete and update its property management system to account for these deficiencies within 30 days.

### Technical Issues

- The Association did not properly prepare or submit in a timely way the various reports required by EPA, such as the semiannual Federal Cash Transaction Reports and quarterly Financial Status Reports. The reviewers recommended that the Association follow EPA's guidelines in preparing and submitting required reports.

### Written Procedures

- The Association did not have a formal and comprehensive policies and procedures manual. The reviewers recommended that the Association develop a manual within 120 days that included, among other things, accounting and reporting policies and procedures, budget policies, fixed asset policies, and procurement policies.

### EPA's Significant Actions

As a result of the findings identified during the on-site review, EPA notified the Association that it was suspending work and temporarily withholding funds and would notify the Financial Management Center not to make further payments until EPA had resolved its concerns with the recipient's grants management. EPA requested that the Association submit a corrective action plan, with associated time frames, within 30 days. EPA informed the Association that the suspension order required it to stop project work and take all reasonable steps to minimize costs incurred on the project. The order was scheduled to be in effect for 45 days. Additionally, EPA forwarded a copy of its on-site report to the OIG and requested that the OIG audit the Association. EPA asked that the OIG perform tests on all grant related financial transactions to confirm that the grant funds were being used properly.

### Results of Corrective and Significant Actions, and Other Information

As requested, the OIG conducted an audit of the Association's management of grant number CR827181-01 and published its findings on September 19, 2003. The OIG questioned \$2,357,376 of claimed costs because the Association did not comply with the federal rules, regulations, and terms of the agreement. Specifically, the OIG found that among other things, the Association could not or did not (1) reconcile claimed costs to its general ledger, (2) support its salaries and wages with the appropriate timesheets, and (3) competitively procure

## Enclosure II

contractual services or perform any of the required cost or pricing analyses. Regarding the finding that the Association did not competitively procure contractual services, the OIG reported that a former Association board member was instrumental in soliciting a university for a contract. However, before the Association awarded the contract, the former board member was hired by the university.

The OIG recommended that EPA recover the \$2,357,376 in unsupported costs, suspend work under the grant, make no new awards until the Association demonstrated that its accounting practices were consistent with federal regulations, and require the Association to modify its financial management system to include, among other things, financial reports that are current, accurate, complete, and supported by accounting records and an adequate time distribution system that could account for total hours worked and identify specific activities. The Association did not agree with the OIG's findings, and its comments were included in the final report. EPA reported that the Association has taken measures to correct the deficiencies identified during the on-site review and the audit, and it has lifted the suspension order. The project is currently in the audit resolution process, and the Grants Administration Division is scheduled to respond to the OIG in January 2004.

## **Washington Heights Environmental Coalition**

In May 2002, Region 6 officials returned a request for reimbursement from the Washington Heights Environmental Coalition (the Coalition) in the amount of \$352 for multiple reasons, including a lack of grant funds remaining in the account and an ineligible expenditure. Region 6 officials also conducted an on-site, in-depth review of the Coalition on July 9, 2002. The officials found that the project was not on schedule. Additional documentation provided by EPA indicated that the agency had noted problems with the Coalition, such as late submission of a progress report and a lack of grants management skills. EPA found the Coalition to be in noncompliance and determined that it must produce deliverables before receiving advanced payment funds. Information EPA provided noted that the Coalition has not received additional grants.

### Background

The Coalition is a nonprofit group of citizens affected by the Hudson Refinery site in Cushing, Oklahoma, that is on the Superfund National Priority List. The Coalition is located in Cushing and is governed by a four-member board of directors.

#### Grants Received

- The Coalition received a grant for \$50,000 (1-98677501-0) in August 2001 to hire independent technical advisors to help interpret and comment on site-related information generated by the state agency or EPA. The grant resulted in few analysis documents from the technical adviser; EPA is waiting for further deliverables.

### Description of Problems and Corrective Actions

EPA documentation identified problems in the following areas:

#### Financial Expenditures

- A Coalition request for reimbursement was denied for three reasons: (1) the amount of the request was \$352, but the recipient had only \$346 remaining in its checking account, (2) \$2.70 of this \$352 was ineligible for repayment because the claimed cost was incurred on April 28, 2001, which was before the grant was awarded, and (3) the remaining \$3.30 over the \$346 was too small a request for EPA to process.

#### Personnel/payroll

- The Coalition did not have staff with the skills necessary to manage its grant and prepare required reports or forms correctly. EPA requested a special training session with the recipient to assist it in managing its grant.

## Enclosure II

### Progress Reports

- The Coalition had been late in submitting a progress report.

### Technical Issues

- The Coalition was behind in hiring its technical advisor, which affected the submission of analysis documents. The reviewers noted that a major barrier to accomplishing the work was the recipient's lack of administrative skills.

### EPA's Significant Actions

EPA did not process the Coalition's ineligible expenditure.

### Results of Corrective and Significant Actions, and Other Information

Additional information provided by EPA indicated that the Coalition has produced few of its analysis documents. EPA found the recipient to be in noncompliance and determined that it must produce deliverables before drawing further funds. EPA noted that it has not awarded any more grants to the Coalition.

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