

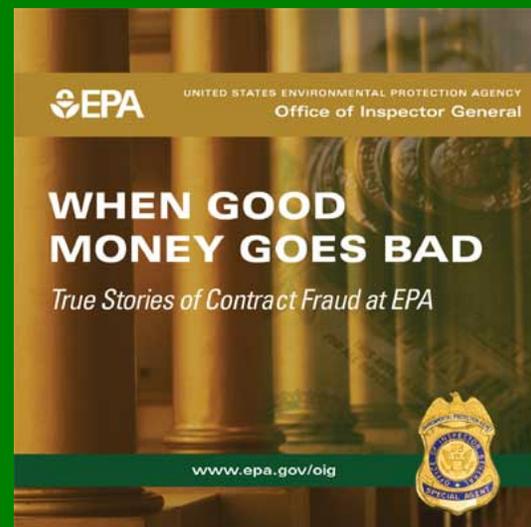


U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Semiannual Report to Congress

April 1, 2009 - September 30, 2009



***EPA Recovery Act
Projects Underway;
Office of Inspector General
Involved in Monitoring
and Outreach***

Abbreviations

BEI	Bennett Environmental, Inc.
CTS	Customer Technology Solutions
DCAA	Defense Contract Audit Agency
ECHO	Enforcement and Compliance History Online
EPA	U.S. Environmental Protection Agency
FIFRA	Federal Insecticide, Fungicide, and Rodenticide Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAO	Government Accountability Office
GIAMD	Grants and Interagency Agreements Management Division
MACT	Maximum Achievable Control Technology
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover photos: *Left:* Construction of a water facility in Enaville, Idaho, for which the Central Shoshone County Water District received a \$12.2-million loan through the American Recovery and Reinvestment Act. Construction began in May 2009. Details are on page 11. (EPA photo)

Right: A brochure distributed by the Office of Inspector General as part of its outreach efforts to deter fraud related to Recovery Act funding. (EPA OIG brochure)

To find out more about the U.S. Environmental Protection Agency
Office of Inspector General and its activities, visit our Website at:

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



Message to Congress

The Office of Inspector General took numerous steps during the past semiannual reporting period to help the U.S. Environmental Protection Agency (EPA) properly and efficiently spend the \$7.2 billion it has received under the American Recovery and Reinvestment Act of 2009.

We have taken many steps to educate the public about the requirements of the Recovery Act to help deter fraud, waste, and abuse as funds are distributed. We have provided specific training on the Recovery Act to Agency personnel; State, tribal, and local officials; contractors; and grant recipients. This has included over 60 briefings, as well as a Webinar. In addition, we have developed and distributed fraud awareness and education materials. Further, we have participated in Agency workgroups and committees, are using EPA financial systems to monitor EPA awards and recipient draws of Recovery Act funding, and have initiated unannounced site visits to assess the use of Recovery Act funds.

To date, we have opened three criminal investigations involving Recovery Act-related issues, including one of the first Recovery Act-specific investigations. Also, during the past semiannual reporting period, we initiated a half-dozen audit and evaluation assignments to determine whether EPA and funding recipients manage projects effectively and meet Recovery Act objectives. These assignments included looking at whether EPA sufficiently evaluated the past performance of contractors before awarding Recovery Act funds, whether EPA is promoting competition to the maximum extent possible in awarding Recovery Act funds for the National Clean Diesel Funding Assistance Program, and whether the required percentage of State Revolving Fund dollars were awarded to “green” projects.

We continue to look at important issues that are not related to the Recovery Act. We found that EPA has neither the authority nor the resources to ensure radon testing devices and testing laboratories are accurate or reliable. EPA is only recovering a fraction of the Superfund removal costs it incurs related to rapid response removal actions at non-National Priorities List sites. EPA’s process for establishing peer review panels used to enhance EPA’s scientific and technical work products can be improved. The Office of Solid Waste and Emergency Response’s Regional Public Liaison program does not sufficiently focus on or measure specific outputs and outcomes, and does not ensure offices consistently take steps to make stakeholders aware of the program.

We found that while EPA generally recorded Homeland Security Presidential Directive-12 property accurately, we noted several discrepancies. This directive established a mandatory standard for security and reliable forms of identification issued

by the Federal Government to its employees and contractors, and we found \$29,538 in property missing and not recorded in the system. We recommended that EPA should stop providing its labor hour estimates to contractors prior to receiving contractor proposals, and found EPA needs to improve its invoice review procedures. Further, EPA's Office of Acquisition Management did not comply with EPA's System Life Cycle Management policy and procedure while developing the new EPA Acquisition System, and based on our findings agreed to delay implementing the system.

An Agency-wide policy for monitoring obligations under Superfund Cooperative Agreements and identifying amounts available for deobligation is needed. During our audit, the Agency deobligated \$330,370 in open obligations.

As a result of our investigations, several guilty pleas were entered in connection with a bid rigging case at a Superfund site in New Jersey. Further, tribal officials in Maine were sentenced to prison terms for misusing \$1.7 million in federal funds. In addition, an operations manager for a Tennessee company was convicted and sentenced for making a false statement related to Clean Air Act documents.

As EPA continues to face the challenges of using its funds and accomplishing its mission in an efficient and effective manner, particularly concerning Recovery Act projects, we will continue to both work with the Agency and oversee its efforts to ensure funding is expended properly and human health and the environment are safeguarded to the maximum extent possible.



Bill A. Roderick
Acting Inspector General

Table of Contents

About EPA and Its Office of Inspector General	1
U.S. Environmental Protection Agency	1
EPA Office of Inspector General	1
Management Challenges for the Agency	8
OIG Recovery Act Efforts	10
OIG Taking Proactive Approach to Deterring Fraud and Waste	10
Reviews Underway on EPA's Spending of Recovery Act Funds	12
Assistant Inspector General Testifies on OIG Recovery Act Plans	14
Open Recommendations May Affect Funding	15
EPA Should Revise Its Grant Accrual Methodology	16
EPA Should Update Management Integrity Guidance	17
Other Significant OIG Activity	18
Air	18
Water	20
Superfund/Land	22
Research and Development	24
Cross-Media	25
Special Reviews	27
Grants	31
Contracts	32
Forensic Audits	35
Financial Management	37
Risk Assessment and Program Performance	39
Information Resources Management	41
Investigations	45
Other Activities	49
Statistical Data	52
Profile of Activities and Results	52
Audit, Inspection, and Evaluation Report Resolution	53
Hotline Activity	55
Summary of Investigative Results	56
Scoreboard of Results	57

continued

Appendices	58
Appendix 1 - Reports Issued	58
Appendix 2 - Reports Issued Without Management Decisions	61
Appendix 3 - Reports with Corrective Action Not Completed	74
Appendix 4 - OIG Mailing Addresses and Telephone Numbers.....	75

Index of Reporting Requirements

Inspector General Act of 1978, as Amended

Requirement	Subject	Pages
Section 4(a)(2)	Review of legislation and regulations	49
Section 5(a)(1)	Significant problems, abuses, and deficiencies	15-48
Section 5(a)(2)	Significant recommendations for corrective action	15-44
Section 5(a)(3)	Reports with corrective actions not completed	74
Section 5(a)(4)	Matters referred to prosecutive authorities	45-48, 52, 56-57
Section 5(a)(5)	Information or assistance refused	None
Section 5(a)(6)	List of reports issued	58-60
Section 5(a)(7)	Summaries of significant reports	15-44
Section 5(a)(8)	Audit, inspection, and evaluation reports - questioned costs	52-54, 57-60
Section 5(a)(9)	Audit, inspection, and evaluation reports - funds to be put to better use	52-54, 57-60
Section 5(a)(10)	Prior audit, inspection, and evaluation reports unresolved	53-54, 61-73
Section 5(a)(11)	Significant revised management decisions	None
Section 5(a)(12)	Significant management decisions with which OIG disagreed	None

About EPA and Its Office of Inspector General

U.S. Environmental Protection Agency

The mission of the U.S. Environmental Protection Agency (EPA) is to protect human health and the environment. As America's steward for the environment since 1970, EPA has endeavored to ensure that the public has air that is safe to breathe, water that is clean and safe to drink, food that is free from dangerous pesticide residues, and communities that are protected from toxic chemicals. EPA develops and enforces regulations that implement national environmental laws, and works with its partners and stakeholders to identify, research, and solve/mitigate current and future environmental problems. EPA provides grants to States, tribes, nonprofit organizations, and educational institutions; supports pollution prevention and energy conservation; and promotes environmental education for all Americans. EPA has Headquarters offices in Washington, DC; 10 regional offices; and more than 100 laboratories and field sites.

For Fiscal Year (FY) 2009, EPA had a budget of \$7.6 billion. EPA's FY 2010 proposed budget requests \$10.5 billion in discretionary budget authority and 17,384.3 full-time equivalent positions to accomplish EPA's efforts to build a greener economy, move into a clean energy future, and protect human health and the environment in communities across the nation. The FY 2010 budget request is substantially higher than the FY 2009 budget, reflecting an enhanced focus on addressing public health and environmental challenges. Increased funding will be targeted at such vital areas as improving water infrastructure, protecting freshwater resources, creating a foundation to address climate change, identifying research gaps, and managing chemicals. In addition to its annual budget, EPA received \$7.2 billion under the American Recovery and Reinvestment Act of 2009 through FY 2011.

EPA Office of Inspector General

The Office of Inspector General (OIG) is an independent office of EPA that detects and prevents fraud, waste, and abuse to help the Agency protect human health and the environment more efficiently and cost effectively. Although we are part of EPA, Congress provides us with a budget line item separate from the Agency's to ensure our independence. The EPA OIG was created and is governed by the Inspector General Act of 1978 (P.L. 95-452). The legislative history of the 1978 law, found in Senate Report 95-1071 and House Report 95-584, sheds light on Congress' intent in enacting this

legislation. The original act has been amended a number of times. Important changes were made in 1988 (P.L. 100-504) and again in 2002 (P.L. 107-296). Most recently, to enhance the independence of the Inspectors General, the Inspector General Reform Act of 2008 (P.L. 110-409 [H.R. 928]), was enacted.

Vision of the EPA OIG

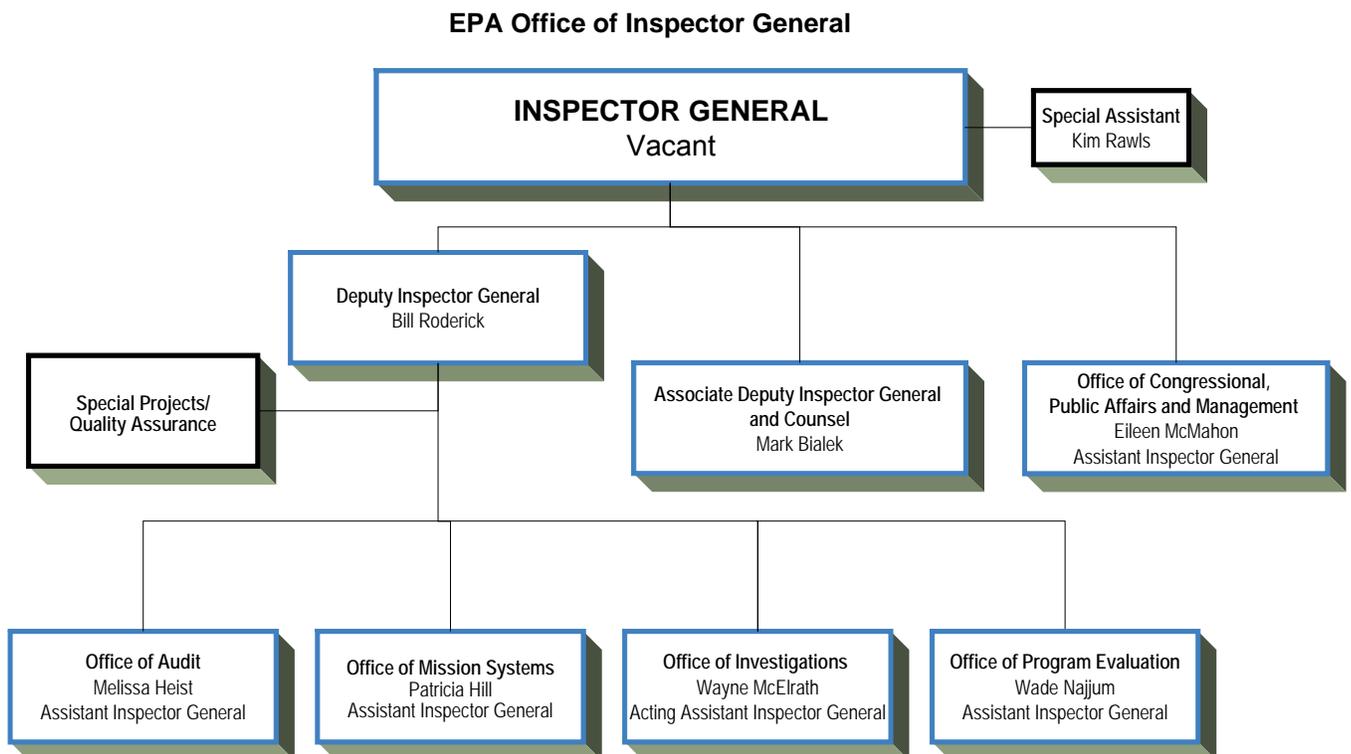
We are catalysts for improving the quality of the environment and government through problem prevention and identification, and cooperative solutions.

Mission of the EPA OIG

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

OIG Organization

To fulfill our vision and accomplish our mission, we perform audits, evaluations, and investigations of EPA, as well as its grantees and contractors. We also provide testimony and briefings to Congress. We recommend solutions to the problems we identify that ultimately result in providing Americans a cleaner and healthier environment. We are organized as follows.



OIG staff are physically located at Headquarters in Washington, DC; at the regional headquarters offices for all 10 EPA regions; and other EPA locations including Research Triangle Park, North Carolina, and Cincinnati, Ohio. Details on the specific role each OIG office plays in helping the OIG accomplish its mission follow.

Immediate Office: This office includes the position of the Inspector General, which is currently vacant, and the Deputy Inspector General, who is serving as the Acting Inspector General. In addition to providing overall leadership and direction, this office includes a Quality Assurance Program team that conducts reviews of all draft and final reports to ensure conformance with standards. The office also manages the OIG's Continuity of Operations Plan.

Office of Audit: This office performs audits to improve the economy, efficiency, and effectiveness of Agency programs and prevent fraud, waste, and mismanagement. The office performs financial audits of assistance agreements and contracts, as well as Agency-wide reviews of programs. Product divisions and their missions include:

- **Contracts and Assistance Agreements:** Improving EPA's management of contracts and grants.
- **Forensic Audits:** Identifying fraud, waste, and abuse in contracts and grants.
- **Financial Audits:** Improving the Agency's financial management.
- **Risk Assessment and Program Performance:** Improving EPA's internal controls, processes, and workforce/manpower.

In FY 2010, the Office of Audit plans to establish a new division to focus exclusively on identifying cost savings within EPA's operations.

Office of Congressional, Public Affairs and Management: This office performs communication and resource management functions. This includes providing communication and liaison services to Congress, the public, and the media; operating the OIG Hotline; editing, issuing, and distributing OIG reports; and managing information posted on the OIG Website. The office also manages the OIG's budget process and coordinates OIG planning, policies and procedures, audit follow-up, performance measurement and reporting, contracting, and OIG internal control assessment. Further, the office is responsible for all aspects of OIG human capital programs and functions and human resources operations and recruitment.

Office of Counsel: This office provides independent legal and policy advice to all components of the OIG and represents the OIG in administrative litigation. The office manages the OIG ethics program, providing ethics training, advice, and financial disclosure reviews, and coordinates OIG responses to Freedom of Information Act and other document requests. The office, which employs Special Agents in addition to attorneys, also performs Oversight and Special Reviews. These reviews include criminal

and other investigations of misconduct by EPA employees. Further, the office performs legal reviews in response to requests by members of Congress and the Agency.

Office of Investigations: This office employs Special Agents, as well as computer specialists, to perform criminal investigations. The majority of the investigative work is reactive in nature, responding to specific allegations of criminal activity and serious misconduct. The office focuses its investigative efforts on financial fraud (contracts and assistance agreements), computer crimes, infrastructure/terrorist threat, program integrity, and theft of intellectual or sensitive data. Specifically, investigations focus on:

- Criminal activities in the awarding, performing, and paying of funds under EPA contracts, grants, and other assistance agreements to individuals, companies, and organizations.
- Criminal activity or serious misconduct affecting EPA programs that could undermine or erode the public trust.
- Contract laboratory fraud relating to water quality and Superfund data, and payments made by EPA for erroneous environmental testing data and results that could undermine the bases for EPA decision-making, regulatory compliance, and enforcement actions.
- Intrusions into and attacks against EPA's network, as well as incidents of computer misuse and theft of intellectual property or other sensitive data and release of or unauthorized access to sensitive or proprietary information.

Office of Mission Systems: This office performs audits of and issues reports on EPA's information resources management to ensure the Agency is adequately maintaining its systems and data. Audits consider how well EPA collects data, manages its investment in information technology, and manages information security and privacy. The office also provides information technology support to the rest of the OIG, manages the technical aspects of the OIG Website, and provides data mining and analysis to support OIG staff.

Office of Program Evaluation: This office performs program evaluations that assess and answer specific questions about how well a program is working. The office can assess strategic planning and process implementation to determine whether a program is designed and operating as intended, as well as the extent to which a program is achieving its objectives and having an impact. Evaluations examine root causes, effects, and opportunities leading to conclusions and recommendations that influence systemic changes and promote improved delivery of the Agency's mission. Evaluations may also be designed to increase the understanding of a program. Product areas include:

- **Air:** Helping to make air safe and healthy to breathe.
- **Water:** Helping to ensure that drinking water is safe and waterbodies are protected.
- **Superfund/Land:** Improving waste management and clean-up.
- **Enforcement:** Helping to improve compliance with environmental requirements.

- **Research and Development:** Helping EPA improve its research and development efforts and ensure sound science.
- **Cross-Media:** Evaluating nontraditional approaches to protecting the environment and challenges that cut across programs.
- **Special Reviews:** Reviewing issues of fraud, waste, and misuse in EPA programs.

This office also looks at issues involving homeland security.

OIG Budget and Operations

Proposed Funding for OIG Remains Level for FY 2010, OIG Obtains New Independent Resource Authority

The FY 2010 President's Budget provides the EPA OIG with an amount identical to the FY 2009 budget funding level of \$54,766,000. In accordance with a congressional directive to increase its staffing level to that of prior years, and at the same time recruit staff to fulfill the oversight requirements of the American Recovery and Reinvestment Act of 2009, the OIG is continuing a hiring initiative consistent with available funds. During this semiannual reporting period, the OIG obtained delegated examining authority to make direct hiring decisions and is seeking the services of a private contractor as its primary source for human resources functions. In the interim, to address the staffing gap and accelerate the recruitment and selection of highly qualified staff members, the OIG will continue to use the services of the Office of Personnel Management to further expedite staff recruitment and processing actions. Additionally, to ensure OIG independence and expedite the availability of contractual services consistent with the Inspector General Act, as amended, the OIG has established an independent contracting operation.

Below is a summary of the OIG resource levels/expenditures for FYs 2000 through 2010.

Historical Budget and Manpower Summary			
Fiscal Year	Enacted Budget (after rescissions where applicable)	Onboard Staff (as of October 1)	Expenditures (includes carryover)
2000	\$43,379,700	340	\$39,384,100
2001	\$45,493,700	351	\$41,050,807
2002	\$45,886,000	354	\$45,238,608
2003	\$48,425,200	348	\$46,023,048
2004	\$50,422,800	363	\$52,212,862
2005	\$50,542,400	365	\$61,733,781
2006	\$50,241,000	350	\$49,583,584
2007	\$50,459,000	326	\$48,658,217
2008	\$52,585,000	290	\$51,628,082
2009	\$54,766,000	304	\$52,272,811
2010	Pending	316	TBD

Sources: OIG archives and analysis and EPA Integrated Financial Management System.

The Recovery Act provided the EPA OIG \$20 million through September 30, 2012, for oversight and review. As of September 30, 2009, the OIG expended approximately \$2 million of Recovery Act funds. Details on our Recovery Act efforts begin on page 10.

OIG Annual Plan

The OIG has issued its Annual Plan for FY 2010 based on an assessment of risks and challenges identified by the OIG and some of its key stakeholders. The strategy and work plan for the first 6 months of FY 2010 addresses EPA's most significant environmental and management areas of concern, its new priorities, and areas of investment through specific assignments. The plan considers the role of the OIG in providing oversight of the Agency's implementation of the Recovery Act. The Plan is available at http://www.epa.gov/oig/reports/2010/EPA_OIG_FY2010_Annual_Plan.pdf.

The planning process included developing and updating a comprehensive compendium of risks, challenges, and opportunities for Agency-wide management and media-specific areas, as well as regional cross-goal and management issues. Data were collected, categorized, and summarized to reflect a broad perspective from multiple points of view, including EPA managers, Agency planning efforts and performance reporting results, previous OIG work, and a risk assessment by the Government Accountability Office (GAO). The assignments in the plan focus on opportunities for improving the Agency's control environment for greater transparency, including managing grants and contracts as well as operational efficiencies.

We used the compendium of risks and challenges, largely reported by the Agency itself, to formulate customer-driven strategic themes and develop and select assignments. The plan includes assignments in progress from FY 2009 as well as those to be initiated in FY 2010. The plan, which also provides a summary update on the OIG Strategic Plan, is designed to adjust for new priorities and conditions while pursuing a program of work that leverages the greatest return on investment in terms of Agency improvements, performance, and risk reduction.

OIG Follow-up

The OIG has been implementing a strong follow-up strategy for improving the process for resolving (reaching agreement on actions to be taken) and completing agreed-to actions on OIG recommendations. Follow-up, which is a shared responsibility between the Agency and the OIG, is a process by which the Office of the Chief Financial Officer monitors and reports on Agency implementation of recommendations, and OIG auditors and evaluators determine the adequacy, effectiveness, and timeliness of actions taken by management on reported findings.

To comply with Inspector General Act reporting requirements and to help EPA managers gain greater awareness of outstanding commitments for action, we are now issuing

semiannually a “Compendium of Unimplemented Recommendations.” The Compendium is produced as an appendix to each Semiannual Report to Congress and as a stand-alone report issued to Agency management. The identification of unimplemented recommendations in the Compendium has significantly increased the number of corrective actions taken by the Agency.

Additionally, at the OIG’s behest, the Agency Annual Integrity Review Policy and Process now requires an examination of all outstanding audit recommendations. The OIG is also examining its own process for closing out recommendations that lead to successful resolution. The OIG enhanced its management information system to provide accountability for each recommendation within the OIG and through its connection to the Agency’s follow-up tracking system.

OIG Quality Assurance Program

The OIG operates a rigorous Quality Assurance Program to provide objective, timely, and comprehensive reviews to ensure that OIG work complies with pertinent laws, professional standards, regulations, and policies and procedures, and is carried out efficiently and effectively. OIG offices, activities, processes, and products are subject to review. Our OIG Quality Assurance Program team conducts independent referencing reviews of all draft and final audit and evaluation reports and ensures conformance with the standards of the Comptroller General and Council of Inspectors General on Integrity and Efficiency. Our Quality Assurance Program involves:

- Report quality assurance.
- Quality assurance reviews of audit, evaluation, and investigative activities.
- Annual self-assessments of each OIG office.
- Administrative program reviews.
- Independent internal quality review of OIG performance by an outside firm.
- External peer reviews conducted by other OIGs.
- Use of a quality assurance checklist.

During the semiannual period, the Department of Homeland Security’s OIG issued its peer review report of the EPA OIG. The Department of Homeland Security OIG found that our system of quality control has been suitably designed and complied with to provide us with reasonable assurance of performing and reporting in accordance with professional standards.

Management Challenges for the Agency

On April 28, 2009, we provided EPA with a list of key management challenges for FY 2009. The OIG defines management challenges as a lack of capability derived from internal self-imposed constraints or, more likely, externally imposed constraints that prevent EPA from reacting effectively to a changing environment. The FY 2009 challenges listed below are based primarily on our macro-risk assessment, audit, evaluation, and investigative work. The list includes two new challenges (“Management of Stimulus Funds” and “Safe Reuse of Contaminated Sites”) along with eight challenges that were included for FY 2008.

- **Management of Stimulus Funds:** The American Recovery and Reinvestment Act of 2009 is providing EPA with \$7.2 billion. The Agency faces significant challenges in meeting Recovery Act requirements while carrying out its ongoing programs. The grants EPA awards with Recovery Act funds will contain new conditions that require additional monitoring and oversight. EPA needs to rely heavily on State agencies, as the primary funding recipients, to properly monitor subrecipients’ use of funds. Superfund work will generally be awarded with contracts, and with the emphasis on awarding funds and starting work quickly, EPA needs to make sure contractors are ready and able to accept the additional work.
- **EPA’s Organization and Infrastructure:** EPA has about 140 offices and laboratories. Given budget restraints, the autonomous nature of regional and local offices, and the growing pressure to expand its role globally, EPA will be challenged to assess the efficiency and effectiveness of its current structure.
- **Performance Measurement:** EPA must focus on the logic and design of its measures for success and efficiency, along with data standards and consistent definitions, to ensure that adequate information is obtained and used to evaluate and manage EPA programs, operations, processes, and results.
- **Threat and Risk Assessments:** EPA does not comprehensively assess threats to human health and the environment across the environmental media for which it is responsible (air, water, etc.) to ensure actions are planned, coordinated, and budgeted most efficiently and effectively. This fragmentary approach continues because environmental laws often focus on single media or threats.
- **Water and Wastewater Infrastructure:** Drinking water and wastewater treatment systems are reaching the end of their life cycle, and huge investments will be needed to replace, repair, and construct facilities.

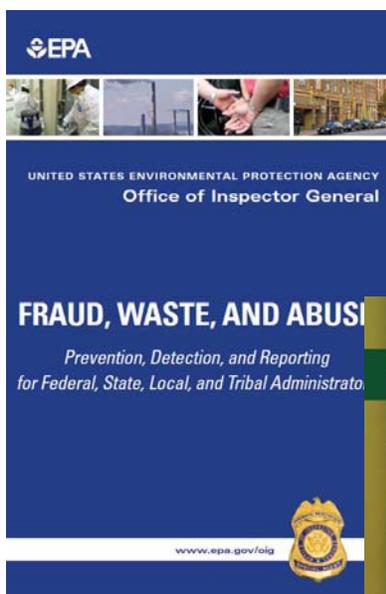
- **Meeting Homeland Security Requirements:** EPA needs to implement a strategy to effectively coordinate and address threats, including developing a scenario to identify resource needs, internal and external coordination points, and responsible and accountable entities.
- **Oversight of Delegations to States:** Many States and tribes are responsible for implementing EPA's programs, enforcing laws and regulations, and reporting on program performance, with EPA retaining oversight responsibility. Inconsistent capacity and interpretation among State and tribal entities limit accountability and compliance.
- **Chesapeake Bay Program:** After more than 20 years of effort by federal, State, and local governments, Chesapeake Bay waters remain degraded and required nutrient and sediment reductions will not be met by the 2010 target. EPA needs to institute management controls ensuring that actions to manage land development, agricultural runoff, nutrient reduction technology, and air emissions are implemented, and that consistent sources of funding are identified by EPA partners.
- **Voluntary Programs:** EPA must ensure that voluntary approaches and innovative or alternative practices are managed using standards, consistent processes, and verifiable data. This is needed to ensure that programs are efficiently and effectively providing intended and claimed environmental benefits.
- **Safe Reuse of Contaminated Sites:** In the last decade, EPA has placed increasing emphasis on reusing contaminated or once-contaminated properties. However, EPA's management of long-term oversight and monitoring for the safe use of these sites has lagged, and this gap promises to increase substantially as EPA continues to heavily promote reusing these sites without the investment needed to ensure safety.

OIG Recovery Act Efforts

The American Recovery and Reinvestment Act of 2009, signed by President Obama on February 17, 2009, provides the EPA OIG \$20 million for oversight activities through September 30, 2012. The OIG is conducting audits, investigations, and other reviews to ensure economy and efficiency and to prevent and detect fraud, waste, and abuse in EPA's disbursement of the \$7.2 billion it is receiving under the Act. Reports on our findings will be posted on our Website and at <http://www.recovery.gov> as published. The OIG is also working with the Agency to ensure that there are appropriate controls in place and that decisions, actions, and accountable results are transparent. The OIG will review, as appropriate, concerns raised by the public about specific investments using funds made available by the Act. Individuals may report any suspicion of fraud, waste, or abuse of EPA stimulus funds via the OIG Hotline. Any findings of such reviews not related to ongoing criminal proceedings will also be posted on our Website. Details on our efforts to date follow.

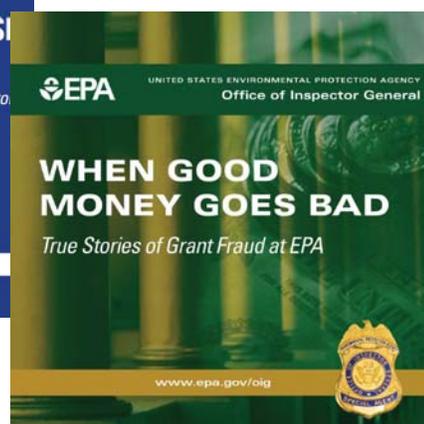
OIG Taking Proactive Approach to Deterring Fraud and Waste

The EPA OIG's Office of Investigations has implemented a three-pronged approach – education, outreach, and investigations – to spread the word about the requirements of the Recovery Act and to deter and detect fraud schemes targeting EPA Recovery Act funds. A key goal is to educate stakeholders and provide resources to help them use funds appropriately.



Two brochures distributed by the OIG. (EPA OIG brochures)

We have provided Recovery Act-specific fraud training and presentations to Agency personnel; State, tribal, and local officials; contractors; and grant recipients. To date, we have provided over 60 briefings across the country to over 2,500 personnel who will administer or receive Recovery Act funding. We have developed new and extensive liaison relationships with State Revolving Fund coordinators; tribal water coordinators; State inspector general offices; and contractor, grant recipient, and engineering personnel.



In addition, we have developed professional fraud awareness and education materials, including pamphlets, postings, briefings, and Webinar broadcasts. We have provided these materials to Agency personnel, State and tribal

administrators, contractors, and grant recipients. Where possible, we have leveraged technology to assist us. We have distributed over 5,000 pamphlets, posters, and Hotline cards to stakeholders throughout the country. Brochures and information on training opportunities are available at http://www.epa.gov/oig/recovery_trng.htm.

In April 2009, in conjunction with EPA's Office of Water, the EPA OIG presented its first fraud and awareness Webinar. This Webinar reached 385 key decision makers, including State and local Clean Water and Drinking Water State Revolving Fund coordinators. In early September 2009, the EPA OIG, in conjunction with the Western Regional Inspector General Council and the State of California OIG, conducted three on-site Recovery Act fraud awareness and education briefings for State, county, and municipal employees, as well as grant recipients, in San Diego, Los Angeles, and San Francisco, California. Representatives from the Federal Bureau of Investigation, the

OIG Tours Recovery Act Recipient's Facility



Above: Construction activity on the water pump station and neutralization and backwash equalization pump stations for the Central Shoshone County Water District project. (EPA photo)

Right: A view of the community's well in its flooded state. (Photo courtesy Idaho Department of Environmental Quality)

As part of the OIG's education and outreach efforts, on September 10, 2009, staff from the EPA OIG toured the first Recovery Act project in EPA Region 10 to begin construction. The Central Shoshone County Water District received a \$12.2-million loan through the Idaho Department of Environmental Quality State Revolving Fund to construct a 5-million-gallon-per-day drinking water facility in Enaville, Idaho, to replace the existing community well that is often flooded. The project, which began construction in May 2009 and will cost an estimated \$20.4 million, also includes installing water meters to all 2,300 connections to allow for a conservation-based rate structure. This allows the project to meet Recovery Act requirements as a "green project." The project created about 30 new construction jobs. During our tour, we looked at what Idaho is doing with its Recovery Act funds, and we gave a presentation on fraud prevention to the facility's owner and resident engineer as well as State officials.



U.S. Attorney's Office, and the Department of Justice Antitrust Division were also involved. The briefings, attended by over 550 participants, covered general and Recovery Act fraud indicators and information on whistleblower protections for State, county, and municipal employees involved in Recovery Act projects. Similar Webinars and briefings are scheduled for the future.

Several western States – Alaska, Arizona, California, Idaho, Nevada, Oregon, and Washington – have expressed concern that smaller Recovery Act fund recipients that had never received federal funds before could be taken advantage of by unscrupulous contractors and engineers. Further, these recipients may not know all the federal requirements for managing and reporting on the use of federal funds. Seven States have made it a requirement for any recipient receiving Recovery Act funds to attend our fraud presentation, and we have already made approximately 25 such presentations. The handout for our “American Recovery and Reinvestment Act Fraud Prevention” presentation can be accessed at http://www.epa.gov/oig/ARRA/IG_Community_ARRA_Handout.pdf.

When criminal acts in relation to Recovery Act funds are reported, the EPA OIG will conduct investigations. To date, we have opened three criminal investigations involving Recovery Act-related issues, including one of the first Recovery Act-specific investigations. We will also proactively initiate investigations to determine whether EPA is spending its Recovery Act funds properly and to ensure there are no instances of fraud, waste, and abuse.

Reviews Underway on EPA's Spending of Recovery Act Funds

As EPA prepared to award Recovery Act funds, the OIG took a number of actions to alert Agency managers of risks and to recommend cost-effective controls. These actions were taken to help prevent fraud, waste, and abuse, and to ensure program goals are achieved and Recovery Act funds are accurately tracked and reported. The OIG participated in Agency workgroups and committees and commented on the Agency's Stewardship Plan to assist it in developing strategies and establishing controls to implement the Recovery Act.



A sign noting a Recovery Act project. (EPA OIG photo)

The OIG is using EPA financial systems to monitor EPA awards and recipient draws of Recovery Act funding. In some cases, the OIG contacted EPA and/or the recipient to assess the support for the funds requested, and the OIG will continue its vigilance in monitoring reimbursement requests. Further, the OIG conducted unannounced site visits of Recovery Act funding subrecipients under the Clean Water and Drinking Water State Revolving Fund programs, to

determine whether subrecipients are complying with requirements. Visits will be made to other recipients.

The OIG also initiated audit and evaluation assignments to determine whether EPA and funding recipients manage projects effectively and meet Recovery Act objectives. During the 6-month period ended September 30, 2009, the OIG started the following Recovery Act assignments:

- **Audit of EPA's Assessment of Past Performance and Determination of Responsibility for Contractors Awarded Recovery Act Funds:** To successfully achieve mission goals and objectives, EPA needs to ensure that contractors have the necessary qualifications and personnel. If EPA is not prudent in reviewing contractor past performance evaluations and financial and technical capabilities, there is a risk that contractors and/or their subcontractors may not have the capability to perform work adequately. Our audit objectives ask (a) are contractor performance evaluations completed timely, and (b) do EPA's contractor performance evaluation and responsibility determination processes consider all available sources of information?
- **Evaluation of Active Solicitation for the Green Reserve for Recovery Act State Revolving Funds.** The Recovery Act provides \$6 billion in capitalization grants to the States through the Clean Water and Drinking Water State Revolving Fund programs. These programs provide low-interest loans for projects that protect water quality and public health. The Recovery Act requires at least 20 percent of this funding to support green projects, which involve water or energy efficiency, green infrastructure, or environmentally innovative activities. States that had not met the green reserve requirements as of August 17, 2009, can request a waiver transferring funds to support traditional projects, but all funds must be under signed contracts by February 17, 2010. We are evaluating EPA's controls to determine whether EPA has ensured that States adequately solicited and identified green projects.
- **Audit of Drinking Water State Revolving Fund Recovery Act Intended Use Plan Projects:** Recovery Act requirements for State Revolving Fund activities include a requirement instructing States to propose projects that are ready to proceed to construction within 12 months. The OIG will review States' intended use plans, the processes States used to develop them, and EPA's review process. The objectives are to determine (a) what impediments exist to having projects under contract or construction by February 17, 2010; and (b) what steps EPA has taken to ensure projects are meeting this deadline.
- **Audit of EPA's Competition for Recovery Act Grants under the National Clean Diesel Funding Assistance Program:** The Recovery Act provides \$300 million to support Clean Diesel program activities; this amount is about six times the program's annual appropriation. The Recovery Act requires that EPA award Recovery Act funds through a process that addresses the established

competition requirements and the new Recovery Act requirements. Our objectives are to determine whether (a) EPA promoted competition to the maximum extent possible for the National Clean Diesel Funding Assistance Program, and (b) the competitions met the goals and requirements of the Recovery Act.

- **Audit of EPA’s Resource Allocation for Recovery Act Contract and Assistance Agreement Oversight:** EPA needs to ensure that it has sufficient grants management and contract personnel to properly manage Recovery Act projects. Our assignment objectives are to determine (a) how the Agency decided the resources needed to manage Recovery Act contracts and assistance agreements, and (b) EPA’s method for distributing those resources. Additionally, the Recovery Act requires the Recovery Accountability and Transparency Board to review whether agencies have sufficient qualified acquisition personnel overseeing Recovery funds. Our assignment included the collection and submission of the Board’s workforce sufficiency and qualifications survey for EPA.
- **Audit of EPA’s Use of Interagency Agreements for Recovery Act Activities:** The Office of Management and Budget’s (OMB’s) Office of Federal Procurement Policy interagency agreement guidance emphasizes the importance of the agreement identifying clear lines of responsibility. It states that effective management and use of interagency acquisitions is a shared responsibility, especially for assisted acquisitions. Lack of clear lines of responsibility between agencies has contributed to inadequate planning, inconsistent use of competition, weak contract management, and concerns regarding financial controls. We plan to determine whether (a) Recovery Act interagency agreements identify clear lines of responsibility, and (b) EPA awarded Recovery Act interagency agreements based on sound business decisions.

Assistant Inspector General Testifies on OIG Recovery Act Plans

On April 29, 2009, Melissa Heist, Assistant Inspector General for Audit, testified before the House Transportation and Infrastructure Committee during a hearing on progress made to date on implementing the Recovery Act.

“EPA will face significant new financial and programmatic challenges as it awards and oversees Recovery Act funding,” Ms. Heist testified. The State Revolving Fund programs are the largest share of EPA Recovery Act funding, totaling \$6 billion of the \$7.2 billion appropriated. EPA and its grantees will be challenged to spend the State Revolving Fund Recovery Act funding in a timely manner as required by the Act, she said.

Most Recovery Act funds will be awarded through assistance agreements or contracts. EPA assistance agreements and contracts personnel will have to manage the stimulus-funded projects in addition to their normal workloads. “If EPA does not assign sufficient staff to oversight, the Agency increases the risk of fraud, waste, and abuse of federal funds,” Ms. Heist said.

EPA will rely heavily on State agencies as the primary fund recipients to properly manage their subrecipients for most of the Recovery Act funding. “EPA may not have the information needed to identify fraud, waste, and abuse at the level where a majority of funds are expended,” said Ms. Heist.

In March 2009, the OIG released its initial oversight plan of Recovery Act funds. Under the plan, the OIG will assess whether EPA is using its funds in accordance with applicable requirements and is meeting the accountability objectives defined by OMB. “As our auditors and evaluators identify risks, they will provide flash reports to Agency managers with recommendations for ways to mitigate these risks,” Ms. Heist said.

From an investigative perspective, Ms. Heist said that in addition to conducting investigations, the OIG will undertake a proactive approach – through outreach and education – to prevent fraud, waste, and abuse.

“We will revise and update oversight plans as necessary to ensure that fraud, waste, abuse, and mismanagement is identified and addressed,” concluded Ms. Heist.

Open Recommendations May Affect Funding

Providing funding to recipients with known weaknesses and open recommendations increases the risks of fraud, waste, abuse, and mismanagement of Recovery Act funds. As of June 30, 2009, we found that 67 OIG reports involving assistance agreement and contract recipients had open recommendations that could affect EPA’s Recovery Act activities. As of that date, EPA had used Recovery Act funds to award one assistance agreement and one contract to recipients with open recommendations. For the two recipients, EPA ensured that they took corrective actions to address the findings prior to awarding Recovery Act funds.

Open recommendations are those for which EPA or the recipient of an EPA assistance agreement or contract has not completed corrective actions. OMB guidance requires the expediting of actions on open recommendations to preclude continuing weaknesses or deficiencies that can affect Recovery Act funding.

In addition to the two recipients already receiving Recovery Act funds, others with open recommendations may also receive such funds. EPA should consider known concerns,

including open recommendations, when making future awards. We recommended that EPA verify whether assistance agreement and contract recipients have corrected weaknesses identified in OIG reports prior to awarding new funds. We noted these matters in Report No. 09-X-0196, *Assistance Agreement and Contract Recipients with Open Audit Recommendations May Affect Recovery Act Activities*, issued July 14, 2009.

Previously, in Report No. 09-X-0136, *Open Audit Recommendations Affecting Recovery Act Activities*, issued April 9, 2009, we identified open recommendations from three EPA OIG reports that could have an effect on Recovery Act funding. These reports were focused on opportunities to improve EPA management. For a 2008 report on the need for providing revised terms and conditions to regions for spending brownfields grant funds in a more timely manner, EPA indicated these terms and conditions would be in place before EPA awarded any Recovery Act grants. Another 2008 report found that EPA had no assurance that use of Cost-Plus-Award-Fee contracts facilitates a higher level of performance than other types of contracts, and EPA is revising its guidance regarding the use of such contracts. For these two reports, EPA implemented corrective actions before awarding Recovery Act funds. A 2007 report found that EPA often entered into interagency contracts without conducting cost-reasonableness assessments or identifying alternatives, and we reemphasized the need for EPA to address this issue.

EPA Should Revise Its Grant Accrual Methodology

The OIG was concerned with the impact the Recovery Act will have on EPA's grant accrual calculation for the FY 2009 financial statements.

Grant accruals in the financial statements represent grantee costs incurred but not billed. EPA's grant accruals for the FY 2009 financial statements may not include adjustments for additional funds received under the Recovery Act. EPA has historically computed grant accruals based on the results of a grantee billing practice survey. EPA planned to combine Recovery Act grants with traditional grants and use the combined universe as the basis for its grant accrual calculation. However, Recovery Act funds are intended to be used faster than traditional grants. Consequently, the results of the sample will be skewed because the billing practices for Recovery Act grants will be different than those for EPA's traditional grants and will not be representative of all grants, including Recovery Act grants. This difference in billing practices could result in a misstatement of accrued liabilities in the financial statements.

We recommended that the Chief Financial Officer modify the current grant accrual methodology to account for the increase in and nature of grant expenditures due to the Recovery Act. The Agency agreed to make needed modifications.

This issue was addressed in Report No. 09-X-0217, *EPA Should Revise Its Grant Accrual Methodology to Address Impact of Recovery Act Funds*, issued August 19, 2009.

EPA Should Update Management Integrity Guidance

EPA should update its management integrity guidance to address Recovery Act activities. In December 2008, the Agency issued guidance that outlined requirements for conducting internal control reviews and preparing annual assurance statements. We believe the guidance should be updated to ensure that EPA offices:

- Emphasize effective design and operation of key business processes that support Recovery Act activities and generate data for reporting purposes.
- Integrate Recovery Act internal control reviews into their multiyear strategies.
- Certify how well internal controls are working in FY 2009 assurance statements to the EPA Administrator.

Updated guidance should ensure that programmatic operations of offices that receive Recovery Act funds have properly designed internal controls that are operating as intended. We recommended that the Agency expedite updating its management integrity guidance.

We discussed this issue in Report No. 09-X-0145, *Recommendation to Strengthen Management Integrity Processes Affecting Recovery Act Activities*, issued April 27, 2009.

Other Significant OIG Activity

Air

Helping to make air safe and healthy to breathe

Some Protocol Gases Did Not Meet Acid Rain Program's Accuracy Criterion

EPA has conducted only two tests of the accuracy of EPA Protocol Gases since 1997, when EPA's Office of Research and Development discontinued its annual testing program.

The accuracy of continuous emissions monitors is critical to EPA's Acid Rain Program because data from these monitors determine the number of allowances a utility can bank, sell, or trade. EPA Protocol Gases are used to calibrate and assure the quality of these monitors. EPA regulations require the use of these gases or National Institute of Standards and Technology-certified reference materials when conducting quality assurance for continuous emissions and ambient air monitoring systems.

In our sample testing, we found that 89 percent of the cylinders met the Acid Rain Program's accuracy criterion and 11 percent did not. Our sample was not designed to



Gas cylinders stored at National Institute of Standards and Technology laboratory in Gaithersburg, Maryland. (Photo courtesy National Institute of Standards and Technology)

estimate the impact of the test results on the Acid Rain Program. However, inaccurately certified concentrations could cause system operators to unknowingly calibrate their monitoring systems to record inaccurate measurements. If a utility overstates its emissions, it could lose the opportunity to sell allowances to other utilities. Conversely, if a utility understates its emissions, the utility and regulators may incorrectly conclude that the source is complying with emissions standards. With respect to ambient air monitoring, the accuracy of these monitors is important because the data are used to determine whether areas are in compliance with the Nation's ambient air quality standards.

We recommended that oversight programs be implemented to assure the quality of EPA Protocol Gases for both the Acid Rain Program's continuous emissions monitoring systems and the National Ambient Air Quality Standard's ambient air monitors. We also recommended that Protocol Gas procedures be updated and maintained to ensure that the protocol meets the objectives of the Acid Rain, ambient air, and stationary source air programs. The Agency concurred with our recommendations.

(Report No. 09-P-0235, EPA Needs an Oversight Program for Protocol Gases, September 16, 2009 – Report Cost: \$665,846)

EPA Does Not Provide Oversight of Radon Testing Accuracy and Reliability

EPA has neither the authority nor the resources to ensure radon testing devices and testing laboratories are accurate or reliable.

Radon is a naturally occurring gas that seeps out of rocks and soil into the air in homes. Radon builds up when it is unable to disperse, attaching to tiny dust particles indoors that are easily inhaled and can adhere to the lining of lungs. EPA estimates that about 20,000 lung cancer deaths each year in the United States are related to indoor exposure to radon. The only way to know whether indoor radon levels are elevated is to test the indoor air.

We found that EPA does not perform oversight of radon testing device accuracy or reliability. The 1988 Indoor Radon Abatement Act required that EPA establish proficiency programs for firms offering radon-related services, including testing and mitigation. EPA established and operated proficiency programs until 1998, when it disinvested in these programs. EPA asserts that it shares oversight responsibility with States and industry, including the two national proficiency programs operating under private auspices. However, without oversight, EPA cannot assure that radon testing devices provide accurate data on indoor radon risks or that radon testing laboratories accurately analyze and report radon results.

We recommended that the Agency disclose that while radon testing is recommended, EPA cannot provide assurance that commercially available radon testing devices or testing laboratories are accurate and reliable. We also recommended that EPA inform Congress that the limitations of reliable testing for radon may have a negative effect on the achievement of Indoor Radon Abatement Act goals. EPA generally agreed with the recommendations.

(Report No. 09-P-0151, EPA Does Not Provide Oversight of Radon Testing Accuracy and Reliability, May 12, 2009 – Report Cost: \$384,100)

For details on an additional air issue, please refer to page 47, “Operations Manager Sentenced for Making a False Statement.”

Water

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

Accelerated Adoption of Numeric Nutrient Water Quality Standards Needed

EPA's 1998 National Strategy and Plan to promote State adoption of nutrient water quality standards, needed to better protect aquatic life and human health, has been ineffective.



Water from approximately 41 percent of the contiguous United States drains into the Mississippi River Watershed, as shown. The hypoxic zone in the Gulf of Mexico is thought to be caused by excess nutrients from the Mississippi River and seasonal stratification (layering) of waters in the Gulf. (EPA map)

The 1972 Clean Water Act established a goal of maintaining the integrity of the Nation's waters. Decades later, States reported more than 14,000 nutrient-related impairments. In 1998, EPA issued its National Strategy and Plan recommending that States adopt numeric nutrient water quality standards. In the 11 years since, half the States still have no numeric nutrient standards. In 2007, EPA recognized that State progress should be accelerated.

States are reluctant to create standards because their implementation is costly and often unpopular with various constituencies. EPA has not held the States accountable to committed milestones. The current approach does not assure that States will develop standards that provide adequate protection for downstream

waters. Until recently, EPA has not used its Clean Water Act authority to promulgate water quality standards for States.

We recommended that the Assistant Administrator for Water prioritize States/waters significantly affected by excess nutrients and set standards as needed. We also recommended that the Agency establish EPA and State accountability for adopting standards for the rest of the Nation's waters, and establish metrics. The Agency disagreed with our recommendations related to setting standards for significant waters, but agreed with our other recommendations.

(Report No. 09-P-0223, EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards, August 26, 2009 – Report Cost: \$505,399)

Data Provided on Clean Water Act Jurisdictional Uncertainty

In response to a congressional request, the OIG collected information on the impact of the *Rapanos* decision on Clean Water Act enforcement.

In its 2006 *Rapanos* decision (*Rapanos v. United States*, 547 U.S. 715 (2006)), the Supreme Court addressed where the Federal Government can apply the Clean Water Act. The justices issued five separate opinions (one plurality, two concurring, and two dissenting) with no opinion commanding a majority. This wide-ranging set of opinions has affected EPA's enforcement of wetlands regulations, and the Agency does not have a specific picture of its Clean Water Act jurisdiction. We provided to the House Committee on Transportation and Infrastructure a compilation of comments from EPA, the U.S. Army Corps of Engineers, and State wetlands staff about the variety of effects the *Rapanos* decision has had on their programs.

(Report No. 09-N-0149, Congressionally Requested Report on Comments Related to Effects of Jurisdictional Uncertainty on Clean Water Act Implementation, April 30, 2009 – additional report pending)

For details on additional water issues, please refer to:

- Page 11, "OIG Tours Recovery Act Recipient's Facility."
- Page 25, "Great Lakes Clean-up May Take More than 77 Years to Complete."
- Page 29, "Hotline Allegation on East Mission Flats Repository Unsubstantiated."
- Page 31, "Single Audit Report for Worthington, West Virginia, Found to Be Substandard."

Superfund/Land

Improving waste management and clean-up

EPA Could Increase Superfund Cost Recovery at Non-National Priorities List Sites

EPA is only recovering a fraction of the Superfund removal costs it incurs related to rapid response removal actions at non-National Priorities List sites because it says there is a lack of viable potentially responsible parties. Improvements in EPA's controls over identifying responsible parties may improve recovery of the government's clean-up costs.

The Comprehensive Environmental Response, Compensation, and Liability Act (also known as Superfund) authorizes EPA to address releases of hazardous substances that require a rapid response and to pay for clean-up costs before identifying a responsible party. The Act authorizes EPA to recover these costs.

A review of a sample of removal actions showed that EPA collected from responsible parties approximately 11 percent (\$31.4 million of \$294.5 million) of the Federal



Hazardous containers at National Lacquer and Paint Company in Illinois. (EPA photo)

Government's costs for conducting removal actions. According to EPA, about another 30 percent (\$86.0 million) of the costs are pending further government action. EPA indicated most of the remaining \$177.1 million is unrecovered because of a lack of viable potentially responsible parties.

Although EPA has a high rate of success in addressing cost recovery requirements prior to the expiration of the statute of limitations, it has limited control in other key areas that affect its ability to recover the government's costs from responsible parties. EPA also does not review and monitor charges made to all Superfund accounts so all appropriate site costs can be recovered.

We recommended that EPA implement improved controls to monitor potentially responsible party search completions and consistently document these searches, ensure EPA database quality, and ensure the government's costs related to Superfund accounts are identified for possible recovery. EPA concurred with our recommendations.

(Report No. 09-P-0144, EPA Needs to Improve Internal Controls to Increase Cost Recovery, April 27, 2009 – Report Cost: \$621,682)

Sampling Results at Jones Superfund Site in New York Generally Consistent with EPA Data

Our independent sampling results at the Jones Sanitation Superfund Site in Hyde Park, New York, were generally consistent with EPA Region 2 historical data. However, better documentation is needed to explain Region 2's conclusion that sodium and nickel exceedances do not threaten human health and the environment.

Jones Sanitation had received and treated septic and industrial wastes containing hazardous substances. The Site, which operated from approximately 1956 to 1990, was deleted from the National Priorities List in 2005. The OIG is testing long-term monitoring results at Superfund sites EPA has deleted from the List.



A stream runs through the Jones Sanitation Superfund Site. (EPA OIG photo)

In April 2008, the OIG obtained groundwater and surface water samples from Jones Sanitation and nearby areas and conducted a site inspection. Our independent sampling results were generally consistent with the sampling data that Region 2 has historically obtained. In addition, our site inspection showed the Site was properly maintained and secured and is consistent with information Region 2 has obtained on the Site conditions.

Of the 113 chemical compounds that could be compared, only sodium and nickel were found to exceed standards in the residential wells or to have the ability to potentially migrate off-site at levels above standards. Region 2 did not document a concern with these and concluded that the Site remedy remains protective to human health and the environment.

We recommended that Region 2 demonstrate and document that off-site migration of sodium, nickel, and any other compounds exceeding applicable standards are controlled at the Site. We also recommended that the Region modify and/or re-initiate some off-site monitoring if the Region determines such monitoring is needed. EPA agreed with our recommendations.

(Report No. 09-P-0243, Independent Sampling Generally Confirms EPA's Data at the Jones Sanitation Superfund Site in New York, September 23, 2009 – Report Cost, including contractor cost: \$568,898)

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

- Page 27, "Regional Public Liaison Program Needs to Focus on Results and Customers."
- Page 33, "EPA Should Stop Providing Labor Hour Estimates to Contractors."
- Page 36, "Comprehensive Environmental Response, Compensation, and Liability Act Response Claim."
- Page 37, "Agency-wide Policy Would Improve Monitoring of Obligations under Superfund Cooperative Agreements."
- Page 45, "Criminal Charges Continue in Bid Rigging Case at New Jersey Superfund Site."
- Page 48, "Details on Investigation of Libby Superfund Site Released to Public."

Research and Development

Helping EPA improve its research and development efforts and ensure sound science

Process for Establishing Peer Review Panels Can Be Improved

The laws, regulations, guidance, and other relevant requirements governing EPA's peer review process are adequate to produce objective scientific reviews, but the system for populating and managing expert panels can be improved.

Peer review is a process for enhancing a scientific or technical work product so that the decision or position taken by the Agency has a sound, credible basis. Because EPA's National Center for Environmental Assessment produces highly influential scientific assessments, such as human health risk assessments, it is one of EPA's primary users of peer review services.

We found that the EPA National Center for Environmental Assessment's peer review panel selection process does not differ in many aspects from processes used by other major science-based organizations. However, the Center's current system for populating and managing expert panels can be improved by:

- Defining "impartial" panelists in the Center's operating guidance.
- Establishing procedures for providers of peer review services to follow when conducting independent background searches on prospective panelists.
- Establishing procedures for addressing conflicts of interest or potential biases that become known after a panel has begun or completed deliberations.
- Ensuring that the Center clearly documents who has the authority and responsibility for making final determinations regarding panel selection or how potential conflicts of interest are resolved.

We also found that the Center can improve its oversight of peer reviews conducted by third parties to better ensure that these peer reviews follow contractual guidelines.

We recommended that EPA improve management controls by better defining the concept of "impartiality"; establishing criteria under which contractors and other external peer review service providers should operate; and maintaining records of all management decisions pertaining to the selection of peer reviewers, particularly resolution of potential conflicts of interest. We also recommended that EPA develop guidance to address conflict of interest issues that arise after panel formulation, and an oversight tool to ensure that external peer review service providers follow all significant steps in the peer review process. EPA agreed with our recommendations.

(Report No. 09-P-0147, EPA Can Improve Its Process for Establishing Peer Review Panels, April 29, 2009 – Report Cost: \$272,110)

Cross-Media

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

Great Lakes Clean-up May Take More than 77 Years to Complete

EPA is challenged by the overall extent of the contaminated sediment problem in the Great Lakes Areas of Concern and has not developed or implemented a coordinated approach to manage clean-ups. At the current rate of progress, it may take more than 77 years to complete all the clean-ups

Thirty-one Areas of Concern have been identified around the U.S. border of the Great Lakes. All but one are polluted with contaminated sediments. EPA is responsible for working with States, localities, and other stakeholders to remove this contaminated



Great Lakes National Program Office's R/V Mudpuppy sampling in the Buffalo River near the Smith Street habitat restoration site, Buffalo, New York, August 2005. (EPA photo)

sediment. Since 2004, EPA has completed five Great Lakes Legacy Act-funded contaminated sediment clean-ups and remediated approximately 800,000 cubic yards of contaminated sediment.

Without improved management, coordination, and accountability, EPA will not succeed in achieving the results intended for the Areas of Concern program. Although EPA is the designated lead for the clean-ups, it does not have a system for coordinating remediation activities across its program offices, or with States, localities, and other stakeholders. Potential clean-up sites have an estimated federal cost of \$2.25 billion. Local partners will have to come up with \$1.21 billion in

nonfederal matching funds before assistance is provided. Moreover, remediation will be conducted in the order that local governments and stakeholders can afford rather than with regard to the risks posed to human health or the environment.

We recommended that the Great Lakes National Program Manager establish a management plan with written designations of authority and responsibility for each EPA program office, as well as other actions. EPA concurred with developing a limited management plan, but not designating site-specific leadership authorities. We do not consider the actions sufficient to meet the intent of the recommendations.

(Report No. 09-P-0231, EPA Needs a Cohesive Plan to Clean Up the Great Lakes Areas of Concern, September 14, 2009 – Report Cost: \$381,379)

Hotline Allegation on Antimicrobial Testing Program Unsubstantiated

We determined that EPA's Antimicrobial Division of the Office of Pesticide Programs is not withholding information from intended users on product failures in the Antimicrobial Testing Program.

The Antimicrobial Testing Program is designed to evaluate the effectiveness of EPA-registered disinfectants. The focus of the program is on disinfectants most crucial to infection control: sterilants, tuberculocides, and hospital-level disinfectants. The program policies and procedures require the Office of Pesticide Programs to notify the Office of Enforcement and Compliance Assurance and manufacturers when a product fails testing and specify what type of action is to be taken based on testing results.

The Office of Pesticide Programs – Antimicrobials Division is not withholding information on product failures from intended users, as alleged in a Hotline complaint. As of February 2009, 325 of the 671 EPA-registered disinfectant products had been tested under the program, and EPA expects all testing to be completed by 2011.

The report does not contain any recommendations. However, we made several observations regarding Office of Pesticide Programs' policies and practices that could be improved. These included providing publicly accessible information on effective hospital disinfectants and tuberculocidal products, amending standard operating procedures to include products without a hospital disinfectant label claim, and developing a plan to sustain the program after testing is completed in 2011.

(Report No. 09-P-0152, Results of Hotline Complaint Review of EPA's Antimicrobial Testing Program, May 27, 2009 – Report Cost: \$89,833)

Special Reviews

Addressing specific concerns of the public

Regional Public Liaison Program Needs to Focus on Results and Customers

Office of Solid Waste and Emergency Response's Regional Public Liaison program does not sufficiently focus on or measure specific outputs and outcomes and does not ensure offices consistently take steps to make stakeholders aware of the program.

The Regional Public Liaison program is an important link between concerned stakeholders and EPA. Liaisons help the public and regulated community by providing information, facilitating informal contact with EPA staff, and assisting in resolving problems and concerns related to programs administered by the Office of Solid Waste and Emergency Response. Despite limited resources, Regional Public Liaisons have assisted many stakeholders.

Duties of Regional Public Liaisons

- Provide information and facilitate informal contact with EPA staff.
- Help resolve problems.
- Make recommendations to Agency senior management to improve Office of Solid Waste and Emergency Response programs.

Source: *Office of Solid Waste and Emergency Response Guidance for Regional Public Liaisons*, issued March 2004.

The program could be a key internal control for reducing the risk that significant stakeholder concerns might go unaddressed. However, the program lacks clearly stated program logic, which would include outputs and outcomes and provide a results-oriented approach to implementation. As a result, regional offices implement the program differently and report results in varied formats. There is no consolidated report to

show what the program achieves. Inconsistent implementation has led some liaisons to take specific steps to ensure stakeholders are aware of the program and others to adopt a more passive, reactive approach.

We recommended that the Office of Solid Waste and Emergency Response use a logic model approach to revise the Regional Public Liaison program, focusing on outputs and outcomes. We also recommended consolidated reporting, consistent implementation, minimum requirements for stakeholder awareness activities, and a national Website. The Agency concurred with our recommendations.

(Report No. 09-P-0176, Regional Public Liaison Program Needs Greater Focus on Results and Customer Awareness, June 24, 2009 – Report Cost: \$355,483)

EPA Needs Consistent Overall Guidance on Interaction with the OIG

At the time of our review, EPA did not have consistent overall guidance governing interaction with the OIG. Further, our Agency-wide survey found that EPA employees had a significant lack of knowledge about interacting with the OIG.

EPA's Office of Enforcement and Compliance Assurance reportedly had instructed its managers not to provide information directly to the OIG, contrary to the Inspector General Act of 1978 and EPA's own guidance.

Our review found that some EPA program and regional offices promulgated internal guidance that impeded OIG access to Agency information and personnel. These internal guidances included procedures with burdensome administrative requirements and requirements that personnel seek supervisory guidance before responding to OIG inquiries. Our survey found that 83 percent of respondents either were not aware or did not know of any guidance or procedures governing interaction with the OIG, and 14 percent believed they may face retribution if they provided information or documents to the OIG without permission from a supervisor.

In response to our report, the EPA Administrator issued prescriptive guidance on August 7, 2009, to address these issues. The guidance instructed EPA personnel to provide OIG auditors, evaluators, and investigators with full and unrestricted access to personnel, facilities, records, and other information or material needed by the OIG to accomplish its mission. The OIG believes the actions taken by the Administrator to be sufficient.

(Report No. 09-P-0222, Office of Inspector General Access to Agency Information and Personnel, August 25, 2009 – Report Cost: \$199,469)

EPA's Shared Service Center Initiative Lacked Necessary Controls

EPA's human resources management system did not provide the information technology support necessary for the successful implementation of the shared service center initiative, a cost analysis was not prepared, and approval to support establishing the centers was not secured.

In June 2008, EPA began consolidating human resources transactional services under three EPA shared service centers. EPA expected the consolidated centers to provide better results at lower cost. EPA documented the necessity of upgrades to its human resources management system to achieve these efficiencies.

We found that EPA launched the shared service centers in June 2008 before the necessary upgrade of PeoplePlus to an automated workflow feature. Further, EPA lacked the

necessary cost analysis and OMB approval to support establishing the centers. EPA subsequently determined that it is not cost effective to update PeoplePlus, and the Agency's testing of an automated workflow feature proved unsuccessful, causing the Agency, in part, to abandon the project.

EPA is now looking to find a human resources line-of-business provider to provide the required information technology support. We concur with the Agency's decision to do so, but we recommended that EPA seek approval from OMB regarding its current hybrid approach. We also recommended that EPA develop a baseline cost estimate, establish realistic milestones, and document the risk of using PeoplePlus until EPA migrates to certified shared service centers.

(Report No. 09-P-0206, EPA's Human Resource Management System Did Not Deliver Anticipated Efficiencies to the Shared Service Centers, August 11, 2009 – Report Cost: \$152,524)

Hotline Allegation on East Mission Flats Repository Unsubstantiated

EPA Region 10 and the Idaho Department of Environmental Quality allowed appropriate community involvement and provided adequate notice when selecting the East Mission Flats, Idaho, repository location and soliciting comments on the proposed plan, location, and designs. However, the amount of water that will be introduced into the repository with flooding and rising groundwater levels remains unresolved.

An environmental organization in Kellogg, Idaho, alleged in a Hotline complaint that the public was not appropriately notified of repository plans and did not have an opportunity to provide comments. We found that appropriate notice and community involvement were provided, and that many physical aspects of flooding have been investigated and considered in the design process.



Planned East Mission Flats contaminated soil waste repository location in May 2008. (EPA OIG photo)

However, we found that the geochemical aspects and potential for releasing dissolved contaminants had yet to be investigated. The proposed repository site is located in an area that floods annually. Region 10 and Idaho have not sufficiently analyzed geochemical conditions expected to form near the repository base, the potential for annual flooding to introduce water into the repository, and the possibility that dissolved

contaminants will migrate away from the repository. In response to our concerns, Region 10 and the Idaho Department of Environmental Quality prepared a draft scope of work for the needed analysis; much of that work was completed.

We recommended that Region 10 finish analyzing the geochemical and physical conditions and confirm the adequacy of the repository design. Region 10 concurred with the recommendation and prepared a technical analysis.

(Report No. 09-P-0162, Contaminated Soil Waste Repository at East Mission Flats, Idaho, June 8, 2009 – Report Cost: \$418,288)

Grants

Improving EPA's use of assistance agreements

Single Audit Report for Worthington, West Virginia, Found to Be Substandard

In reviewing the single audit for the Town of Worthington, West Virginia, for the fiscal year ended June 30, 2004, we found a lack of adequate detail in the description of the reported deficiencies and the way in which recommendations would address the reported findings.

One of the responsibilities of federal agencies is to conduct quality control reviews of selected audits made by nonfederal auditors. On June 8, 2000, EPA awarded Worthington a grant for \$1.2 million for designing and constructing a drinking water system. We reviewed the single audit for Worthington conducted by Leland O'Neal, CPA, for the fiscal year ended June 30, 2004.

The single audit report was substandard because it did not meet general, field work, and reporting standards required by the *Government Auditing Standards*. As a result, the audit report could not be used for its intended purpose, which was to provide a federal agency with assurance that the grant funds were spent in compliance with federal requirements.

We recommended that EPA meet with Worthington officials to ensure that they understand pertinent requirements and their obligations to meet them, and designate the Town as a high-risk grant recipient should the recipient receive any new EPA awards.

(Report No. 09-2-0195, Quality Control Review of Leland O'Neal, CPA, Single Audit for Town of Worthington, West Virginia, for Fiscal Year Ended June 30, 2004, July 14, 2009 – Report Cost: \$152,290)

Contracts

Improving EPA's use of contracts

EPA Did Not Properly Account for All Homeland Security Property

While EPA generally recorded Homeland Security Presidential Directive-12 property accurately, we noted several discrepancies.

Homeland Security Presidential Directive-12 establishes a mandatory, government-wide standard for secure and reliable forms of identification issued by the Federal Government to its employees and contractors. Requirements include identity proofing, registration, card issuance, and card management. Equipment used to generate this identification is referred to as Homeland Security Presidential Directive-12 property.



From top: EPA's ID Proofing Station, Enrollment Station, and Issuance Station used to issue Smartcards. (EPA photos)

EPA generally recorded Homeland Security Presidential Directive-12 property accurately in EPA's Fixed Assets Subsystem. However, four pieces of property valued at \$29,538 were missing and not recorded in the system. Further, acquisition costs in the system were not correct for some equipment, and nonfinancial information for several pieces of property was not accurately recorded. To meet an OMB deadline, EPA shipped property to other EPA locations before the property was recorded in the Fixed Asset Subsystem.

We recommended that EPA use established procedures to resolve accountability for missing property, and review accuracy of Homeland Security Presidential Directive-12 property information in the Fixed Assets Subsystem and update any discrepancies. We also recommended that EPA modify the Homeland Security Presidential Directive-12 contract to reflect contractor requirements and accountability. The Agency concurred with the recommendations and provided corrective action plans.

(Report No. 09-P-0233, EPA Did Not Properly Account for All Property for Implementing Homeland Security Presidential Directive-12, September 15, 2009 – Report Cost: \$123,103)

EPA Should Stop Providing Labor Hour Estimates to Contractors

For 6 of 22 contracts reviewed, EPA provided contractors with the government's estimate for total labor hours prior to receiving contractor proposals. Consequently, EPA may be diminishing its ability to obtain a fair and reasonable price on such contracts.

An independent government cost estimate is a detailed estimate of what a reasonable person should pay to obtain the best value for a product or service. EPA contract management and program staff indicated that providing the contractor with total labor hours is common practice under level-of-effort contracts. Some staff informed us they provide contractors with estimated labor prior to receiving the proposal to indicate to the contractor the level of effort EPA anticipates will be needed.

We found that for most of the Superfund contracts reviewed, EPA did not routinely provide total labor hours to the contractor before receiving the proposal. Some EPA staff informed us they did not provide the total labor hours because doing so would undermine the negotiation process. When EPA provides its estimate of total labor hours before receiving the proposal, the contractor does not have an incentive to seek a more efficient or innovative approach to meet the government's requirement.

EPA agreed with our recommendations to modify EPA Acquisition Regulations and will communicate new guidance to contracting staff and those who prepare independent government cost estimates.

(Report No. 09-P-0229, EPA Should Stop Providing Estimates of Total Labor Hours to Contractors, September 9, 2009 – Report Cost: \$141,313)

EPA Should Improve Invoice Review Procedures

EPA should improve its contractor invoice review procedures to ensure costs are allowable and supported in accordance with the Federal Acquisition Regulation.

In 2008, EPA paid contractors \$1.3 billion. To safeguard EPA funds, invoices must be reviewed to determine whether the submitted costs are allowable, allocable, and reasonable.

During our review, we found (1) invoice reviews were not always documented as required, (2) project officer reviews were based on incomplete information, (3) monthly progress reports did not always contain the information needed to evaluate invoices, and (4) Agency staff did not perform required rate verifications and math checks.

Financial Monitoring Reviews have identified repetitive findings on contractor invoices regarding errors that EPA employees should have identified. Findings are resolved on a case-by-base basis rather than through a corrective action plan to address internal control weaknesses. This lack of a comprehensive approach leaves Agency funds vulnerable to fraud, waste, abuse, and mismanagement.

We recommended that EPA modify the Contracts Management Manual to require use of a checklist for invoice reviews, and have Contracting Officers verify compliance with the policy during invoice reviews. We also recommended that EPA take corrective actions in response to the trends identified in financial monitoring reviews. EPA agreed with the findings and provided corrective action plans to address all but one of the recommendations.

(Report No. 09-P-0242, Contractor Invoice Internal Controls Need Improvement, September 23, 2009 – Report Cost: \$363,581)

Forensic Audits

Identifying fraud, waste, and abuse in grants and contracts

Labor and Subcontract Cost Verification Reviews Conducted

During this semiannual reporting period, to ensure that no overbilling for labor occurred, we conducted labor and subcontract labor cost verification reviews of small- and medium-sized contractors awarded cost reimbursable EPA contracts.

EPA accomplishes a large part of its mission through contracts. Past audits have shown that oversight of EPA billings varies from region to region, office to office, and even contract to contract. Lack of consistent oversight presents potential risks regarding the costs being billed by contractors.

Details on several of our reviews conducted this semiannual reporting period follow.

- **Superfund Technical Assessment and Response Team Contractor:** Based on Agency concerns related to questionable labor staffing and charging practices of one of its Superfund Technical Assessment and Response Team contractors, we conducted a labor and subcontract cost verification review. We found that:
 - ✓ The contractor improperly billed for labor costs of employees who did not meet the minimum contract requirements.
 - ✓ No subcontractor met the minimum contract requirements for education and training.
 - ✓ The contractor billed for employees who were not approved at the time the labor costs were incurred.
 - ✓ The contractor improperly billed for employees who did not complete required Basic Incident Command System Level 200 training.

Although this review only covered 1 year of the 5-year contract, we found the Agency was billed \$253,089 in ineligible labor and subcontract costs.

- **Superfund Technical Assessment and Response Team Joint Venture:** We initiated an examination of costs billed under a joint venture for Superfund Technical Assessment and Response Team services in a region. Our examination focused on the joint venture's compliance with federal laws, rules, and regulations under the specific contract. During our examination, we identified information of a time-critical nature that the Agency needed to consider in future contracting decisions concerning the joint venture. We informed the contracting officer, project officer, and other regional contracting personnel of the following

information for consideration in deciding whether to exercise the award term options on this contract.

- ✓ The joint venture did not maintain any books or records.
- ✓ Labor hours billed under the contract did not reconcile with the accounting records of the managing venturer.
- ✓ The managing venturer used an employment agency to staff the contract.
- ✓ Known billing errors were not corrected and thus represented over-billings to the Agency.
- ✓ The nonmanaging venturer appeared to be doing the majority of the work, thus calling into question the joint venture's classification as a Service Disabled Veteran Owned Small Business.
- ✓ The nonmanaging venturer appeared to be acting as the project manager, contrary to Small Business Administration regulations.
- ✓ The managing venturer has a history of partnering in joint venture agreements and being a member of mentor-protégé programs.
- ✓ The managing venturer's ability to contribute staff to all of its joint venture arrangements was questionable.

The Agency concurred with our recommendation, and decided not to award the award term option to the joint venture. The contract expired on June 18, 2009, and the Agency indicated no future work will be awarded to the joint venture.

- **Facilities Maintenance and Support Contract:** For a 2005 EPA small-business set-aside contract, we found that labor charges billed under the contract were in accordance with federal laws, regulations, and contract terms and conditions. We noted an improvement that should be made to the contractor's labor charging system to increase the accuracy of allocating labor costs charged to government contracts. Overtime hours were not separately recorded. Instead, they were combined with regular hours on the employee timesheet. Implementing additional controls would improve identification of overtime and reduce the risk of mischarging overtime labor. Based on our report, the Agency agreed to work with the contractor to resolve the issue.
- **Comprehensive Environmental Response, Compensation, and Liability Act Response Claim:** We reviewed a reimbursement mixed funding claim for \$1,133,543 submitted by the responsible parties for a Superfund site in North Carolina. We performed this review solely to assist the EPA Office of Solid Waste and Emergency Response in evaluating the claimant's mixed funding claim. Our review noted no exceptions to the claimed amount. We recommended that EPA accept the claim and reimburse the claimant \$1,133,543 of the total eligible costs of \$3,675,562.

Financial Management

Improving the Agency's financial management

Agency-wide Policy Would Improve Monitoring of Obligations under Superfund Cooperative Agreements

An Agency-wide policy for monitoring obligations under Superfund Cooperative Agreements and identifying amounts available for deobligation is needed.

A Cooperative Agreement is a legally binding obligating document that provides funding to a State to carry out or assist with Superfund removal and/or remedial activities. Timely review and deobligation of unneeded funds allow these funds to be used on other Superfund priorities.

We identified several best practices used by Regions 3, 5 and 8, such as (1) requiring that States submit detailed reports on the status of each Superfund site twice a year, (2) requiring that budget officers solicit information from project officers and other staff twice a year to identify potential funds for deobligation, and (3) performing a deobligation exercise twice a year for Superfund Cooperative Agreements.

We identified \$331,802 of open obligations in Region 3 that needed to be deobligated. During our audit, the Agency deobligated \$330,370 of that amount. The Agency deobligated \$1,432 less than the amount originally identified for one agreement because of a final drawdown.

We recommended that EPA incorporate the best practices noted into a uniform policy for reviewing unliquidated obligations under Superfund Cooperative Agreements in all regions. The Agency agreed with our recommendation.

(Report No. 09-P-0241, EPA Has Improved Efforts to Reduce Unliquidated Obligations in Superfund Cooperative Agreements, But a Uniform Policy Is Needed, September 22, 2009 – Report Cost: \$260,513)

Pesticide Fund Earns Unqualified Opinion

We rendered an unqualified, or clean, opinion on EPA's Pesticides Reregistration and Expedited Processing Fund (known as the FIFRA Fund) financial statements for FYs 2007 and 2008.

EPA is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. To expedite this reregistration

process, Congress authorized EPA to collect fees from pesticide manufacturers. The fees are deposited into the FIFRA Fund.

Along with our clean opinion for the financial statements, we noted one significant deficiency in internal controls. The Office of Pesticide Programs was unable to provide reliable information on reporting accomplishments for reregistration and amendment actions under the FIFRA Program Performance Measure Two. The Agency agreed to take appropriate corrective actions.

(Report No. 09-1-0172, Fiscal Year 2008 and 2007 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund, June 23, 2009 – Report Cost: \$171,671)

For details on additional financial management issues, please refer to:

- **Page 16, “EPA Should Revise Its Grant Accrual Methodology.”**
- **Page 50, “Costs of Financial Statement Audits Reduced 39 Percent.”**

Risk Assessment and Program Performance

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

EPA Can Improve Management Integrity Program Efforts

EPA has not implemented and used the Federal Managers' Financial Integrity Act (FMFIA) to improve program operations, as intended by federal and Agency guidance.

FMFIA requires federal agency managers to annually evaluate and indicate whether their agencies' internal controls comply with standards prescribed by GAO. Internal control systems prevent fraud, waste, abuse, and mismanagement.

Although EPA offices rely on annual Office of the Chief Financial Officer guidance:

- EPA offices have not developed internal control review strategies that include elements such as the Government Performance and Results Act.
- Guidance and training have not provided staff and managers with adequate awareness of GAO's internal control standards.
- Until recently, guidance has not required offices to report on compliance with all GAO standards.
- Insufficient resources are devoted to validating assurance letters.

Five Key GAO Standards for Internal Control in the Federal Government

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communications
5. Monitoring

Source: GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (November 1999).

The Office of the Chief Financial Officer relies on Assistant and Regional Administrators to verify reporting letters' program elements before certifying them. EPA offices view FMFIA reporting as an administrative task rather than an opportunity to assess program results and identify risks toward achieving goals.

We made various recommendations to improve FMFIA use, and the Agency agreed with our recommendations.

(Report No. 09-P-0203, EPA Should Use FMFIA to Improve Programmatic Operations, August 6, 2009 – Report Cost: \$212,476)

Office of Research and Development Can Improve FMFIA Efforts

The management integrity program of EPA's Office of Research and Development is inconsistent with Agency FMFIA guidance.

The Office of Research and Development approaches FMFIA as an administrative reporting activity rather than an opportunity to evaluate and report on research program performance. As a result, the Office has not:

- Conducted a comprehensive risk assessment.
- Included National Program Directors in the FMFIA process.
- Developed and implemented a strategy to establish and evaluate the effectiveness of internal controls over research programs.
- Provided FMFIA training to managers and staff.
- Included relevant risk and program performance information in assurance letters.

Although the Office of Research and Development's largest lab, the National Health and Environmental Effects Research Laboratory, informally identifies program risks, neither the Office of Research and Development nor that lab conducts internal control risk assessments on which to base a program review strategy. Applying FMFIA as intended would help EPA achieve its mission and desired program results through improved accountability.

We made various recommendations to the Office of Research and Development to improve FMFIA efforts, and the Office agreed with those recommendations. Also, the Office of Research and Development's Administrative Efficiencies Project management integrity workgroup has initiated actions that we believe will address our findings, such as developing a draft multiyear review strategy.

(Report No. 09-P-0232, EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act to Improve Operations, September 15, 2009 – Report Cost: \$515,790)

Information Resources Management

Helping the Agency maintain its systems and data

Delay in Deploying EPA Acquisition System Needed

EPA's Office of Acquisition Management did not comply with EPA's System Life Cycle Management policy and procedure while developing the new EPA Acquisition System.

EPA acquires approximately \$1.3 billion in goods and services annually. To better manage these transactions, EPA is developing the new EPA Acquisition System.

The Office of Acquisition Management did not fully develop system requirements documents during the requirements phase. Test scripts were not developed to prove that the system fulfilled all requirements and to ensure the system would function as required. Also, the Draft Master Test Plan was never approved, implemented, and enforced.

Agency Plans to Share EPA Acquisition System Data with the Following Four Systems

- Financial Replacement System (EPA's new core financial management system)
- Contract Payment System
- Payroll System
- Financial Data Warehouse

Source: OIG analysis.

We concluded that EPA did not have a sound basis for deploying the EPA Acquisition System by June 29, 2009, as scheduled. More management emphasis is needed to ensure the system development control environment achieves the desired results and the end product meets EPA's needs. Based on our findings and recommendations, EPA is working on correcting the issues identified and has delayed implementing the EPA Acquisition System until at least FY 2010.

(Report No. 09-P-0197, EPA Should Delay Deploying Its New Acquisition System until Testing Is Completed, July 20, 2009 – Report Cost: \$249,019)

EPA Needs to Further Improve Network Security Monitoring Program

EPA's lack of progress on four key audit recommendations made in 2004 and 2005 inhibits EPA from providing an Agency-wide process for security monitoring of its computer network.

EPA managers are required to take timely and effective action to correct deficiencies identified by OIG audits and show that corrective actions taken achieve the desired results.

EPA implemented 56 percent (15 of 27) of the information security audit recommendations we reviewed. Since EPA had not established an Agency-wide network security monitoring program, the Agency lacks information necessary to respond to known threats against EPA's network and to mitigate vulnerabilities before they can be exploited.

Recommendations included that EPA create Plans of Action and Milestones for unimplemented audit recommendations, provide EPA program and regional offices with an alternative solution for vulnerability management, establish a workgroup to solicit input on training needs, and issue an updated memorandum on guidance and requirements. The Agency agreed with our recommendations.

(Report No. 09-P-0240, Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program, September 21, 2009 – Report Cost: \$475,431)

Technical Network Vulnerability Assessed

The OIG contracted with a firm to conduct testing at various locations to identify network vulnerabilities. If not resolved, vulnerabilities can expose EPA's assets to unauthorized access and potentially harm the Agency's networks.

The testing, done per the Federal Information Security Management Act, disclosed several high-risk vulnerabilities at the following EPA locations. In some cases, the locations were able to take immediate action to correct the identified vulnerabilities.

- **Great Lakes National Program Office, Chicago, Illinois:** Internet Protocol addresses with high-risk vulnerabilities associated with one device were identified, and EPA took immediate corrective actions. *(Report No. 09-P-0185, June 30, 2009)*
- **National Computer Center, Research Triangle Park, North Carolina:** Several Internet Protocol addresses with high-risk vulnerabilities were identified. *(Report No. 09-P-0186, June 30, 2009)*
- **Region 8, Denver, Colorado:** Numerous Internet Protocol addresses with high-risk vulnerabilities were identified. *(Report No. 09-P-0187, June 30, 2009)*
- **Potomac Yard Buildings, Arlington, Virginia:** Several Internet Protocol addresses with high-risk vulnerabilities were identified. *(Report No. 09-P-0188, June 30, 2009)*
- **1310 L Street Building, Washington, DC:** Several Internet Protocol addresses with high-risk vulnerabilities were identified. *(Report No. 09-P-0189, June 30, 2009)*

- **Research Triangle Park Finance Center, Research Triangle Park, North Carolina:** Several Internet Protocol addresses with high-risk vulnerabilities were identified, and EPA took immediate corrective actions. (*Report No. 09-P-0227, August 31, 2009*)

(The cost for all reports, including contractor and OIG oversight cost, was \$189,759.)

Exchange Network Improvements Needed

EPA should take additional steps to improve Exchange Network governance and security planning.

The Exchange Network is EPA's approach to and expected preferred method for the exchange of environmental data among Network partners. As of January 2007, 48 States and 2 tribes used the Network.

This follow-up review disclosed that although improvements were made since our 2007 report, EPA should take more steps to complete key recommendations to increase the utilization of the network. Further, EPA needs to improve security planning for its point of presence on the Exchange Network, the Central Data Exchange. Specifically, EPA should ensure that security activities associated with system accreditation and contingency planning comply with federal and Agency requirements. We made various recommendations for improvement to EPA. Without action, management hinders its ability to achieve the desired utilization of the Exchange Network and ensure the Network is operating without vulnerabilities that could put needed data at risk.

(Report No. 09-P-0184, Steps Taken But More Work Needed to Strengthen Governance, Increase Utilization, and Improve Security Planning for the Exchange Network, June 30, 2009 – Report Cost: \$253,562)

Compliance Information System Needs Better Security Controls

EPA's integrated compliance information system needs better security controls to protect Significant Non-Compliance data.

EPA's Enforcement and Compliance History Online (ECHO) system provides integrated compliance and enforcement information for approximately 800,000 regulated facilities nationwide. ECHO allows users to find inspection, violation, enforcement action, informal enforcement action, and penalty information about facilities for the past 3 years.

End users of the Permit Compliance System and Integrated Compliance Information System – National Pollutant Discharge Elimination System can override the Significant Non-Compliance data field without additional access controls, because EPA has not

implemented database security features to restrict access to this field. As a result, users can change data without authorization, which could affect data made available to the public via ECHO.

We provided this information to EPA in a briefing report. Based on our report, EPA will explore additional database security features.

(Report No. 09-P-0226, ECHO Data Quality Audit – Phase I Results: The Integrated Compliance Information System Needs Security Controls to Protect Significant Non-Compliance Data, August 31, 2009 – additional report pending)

Deployment of Customer Technology Solutions Computers Needs Improvement

EPA's process for deploying Customer Technology Solutions (CTS) equipment needs improvement to address concerns raised during previous CTS deployments in Washington, DC.

We visited the following three sites to observe EPA's process for deploying CTS equipment:

- National Exposure Research Laboratory, Athens, Georgia
- National Air and Radiation Laboratory, Montgomery, Alabama
- National Vehicle and Fuel Emissions Laboratory, Ann Arbor, Michigan.

CTS is EPA's new, comprehensive information technology solution for all Headquarters program offices for personal computing and information technology support services. Employees are often resistant to new systems during deployment. OIG site visits disclosed that although improvements were made in the CTS deployment process, EPA should take more steps to ensure (1) temporary technicians receive more training to become familiar with new equipment, (2) EPA employees receive consistent results when contacting the CTS helpdesk to resolve service request issues, and (3) program office points of contact have a clearer understanding of their role during the CTS deployment.

(Memorandum on OIG's Observations Regarding Customer Technology Solutions Equipment Deployments, issued September 11, 2009 – report pending)

For details on additional information resources management issues, please refer to:

- Page 17, "EPA Should Update Management Integrity Guidance."
- Page 28, "EPA's Shared Service Center Initiative Lacked Necessary Controls."

Investigations

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

Criminal Charges Continue In Bid Rigging Case at New Jersey Superfund Site

Several guilty pleas were entered in connection with a bid rigging case at the Federal Creosote Superfund site located in Manville, New Jersey. Further, an indictment was unsealed.

On June 25, 2009, Frederick Landgraber, co-owner of a Martinsville, New Jersey, landscaping company, pled guilty in the U.S. District Court of New Jersey to conspiracy to defraud EPA. As part of the conspiracy, Landgraber provided more than \$30,000 in kickbacks to an employee of the prime contractor at Federal Creosote in exchange for landscaping subcontracts. Landgraber and his co-conspirator subverted the competitive bidding process by submitting intentionally high bids on behalf of fictitious companies. In total, Landgraber's company received approximately \$1.5 million in subcontracts at Federal Creosote.

On July 6, 2009, Robert P. Griffiths, a former executive of Bennett Environmental, Inc. (BEI), a Canadian-based company, pled guilty to charges that he conspired to defraud EPA by inflating the prices he charged to a prime contractor and providing kickbacks to employees of that contractor. Griffiths and his co-conspirators were given the bid prices of BEI's competitors, which allowed BEI to submit the highest possible bid prices and still be awarded the subcontracts. On one occasion, Griffiths and his co-conspirators inflated the bid prices to cover approximately \$1.3 million in kickbacks and amounts BEI kept for itself. The kickbacks were in the form of money transferred by wire to a co-conspirator's shell company, lavish cruises for senior officials of the prime contractor, various entertainment tickets, pharmaceuticals, and home entertainment electronics. The co-conspirators were able to allocate at least \$43 million in fraudulently awarded subcontracts to BEI for the removal, treatment, and disposal of contaminated soil at the Federal Creosote site and fraudulently concealed that BEI had submitted false invoices for the disposal of approximately 20,000 tons of soil.

Griffiths also pled guilty to conspiracy to commit international money laundering. Griffiths, along with a co-conspirator who received more than \$1 million in kickbacks, laundered approximately \$207,000 of the kickback proceeds from the co-conspirator's bank account to Griffiths' bank account in Canada. Griffiths also pled guilty to obstructing an official proceeding before the Securities and Exchange Commission, which was investigating whether Griffiths and others had obtained information not available to the public and relied upon that information to conduct certain improper securities transactions.

Further, on September 11, 2009, a 12-count indictment was unsealed in the U.S. District Court of New Jersey. The indictment charged Gordon D. McDonald, a former project manager for a prime contractor, with engaging in separate kickback and fraud conspiracies with subcontractors John A. Bennett and James E. Haas, Jr. Bennett is the former chief executive officer of subcontractor BEI. Haas is a former representative of a subcontractor that provides common backfill, a type of soil material used to refill an excavation. McDonald, Bennett, and Haas were charged with committing fraud against the United States. McDonald is also charged with engaging in a bid-rigging conspiracy and separate kickback and fraud conspiracy with two other subcontractors at the Federal Creosote and Diamond Alkali Superfund sites. He is also charged with international money laundering, tax violations, and obstruction of justice.

In February 2009, Christopher Tranchina, an employee of a Sewell, New Jersey, company that provided temporary electrical utilities, pled guilty to participating in a separate kickback and fraud conspiracy at Federal Creosote. Tranchina was sentenced on July 13, 2009, to 20 months in prison, to be followed by 3 years' probation. He was ordered to pay \$154,594 in restitution.

To date, seven individuals and three companies have pled guilty as part of this investigation.

This case is being conducted with the Internal Revenue Service Criminal Investigation Division. (Case Cost: \$334,739)

Tribal Officials Sentenced for Misusing \$1.7 Million in Federal Funds

On April 24, 2009, Robert Newell, Princeton, Maine, was sentenced in the U.S. District Court for the District of Maine for conspiracy to defraud the United States, misapplication of tribal government funds, making false statements, and submitting false claims. Newell, the former tribal governor of the Passamaquoddy Tribe, Indian Township Reservation, was sentenced to 5 years in prison to be followed by 3 years of supervised release. He was also ordered to pay \$1,741,876 in restitution and a \$2,900 special assessment.

On April 27, 2009, James J. Parisi, Jr., Portland, Maine, former Director of Finance of the Passamaquoddy Tribe, was sentenced to 1 year and 1 day in prison, to be followed by 3 years of supervised release. He was held jointly responsible for the restitution ordered for Newell and was ordered to pay a \$1,100 special assessment.

Newell and Parisi misapplied approximately \$1.7 million in restricted federal funds awarded to Indian Township for its tribal programs. They used the restricted funds for the benefit of themselves and some family members. However, most of the diverted federal funds went to pay general assistance to tribal members. The victims in this case

included the EPA, the Indian Township Tribal Government, the Indian Township Retirement Fund, the U.S. Department of Interior's Bureau of Indian Affairs, the U.S. Department of Health and Human Services, the U.S. Department of Housing and Urban Development, the U.S. Department of Justice, and the State of Maine.

This investigation was conducted with the Offices of Inspector General of the U.S. Department of the Interior, U.S. Department of Justice, U.S. Department of Health and Human Services, and U.S. Department of Housing and Urban Development; the U.S. Department of Labor's Employee Benefits Security Administration; and the U.S. Attorney's Office. (Case Cost: \$221,953)

Operations Manager Sentenced for Making a False Statement

On April 15, 2009, Brent Anderson, Oak Ridge, Tennessee, was convicted and sentenced in the U.S. District Court for the Eastern District of Tennessee for filing a false material statement in documents required to be maintained by the Clean Air Act. Anderson was sentenced to 12 months' probation, and ordered to perform 50 hours of community service and pay a \$100 assessment.

Anderson, the Operations Manager for Heraeus Metal Processing, Inc., falsified baghouse pressure logs and scrubber logs that were required to be maintained at the Heraeus facility in Wartburg, Tennessee, pursuant to permits issued by the Tennessee Department of Environment and Conservation under delegations from EPA. The Clean Air Act requires that logs be maintained to record the various operating parameters of the scrubber and baghouse air pollution control devices. Heraeus was required to submit an annual report in March 2005, to include the logs, to the Tennessee Department of Environment and Conservation. The investigation determined that between October 2004 and at least February 2005, no contemporaneous logs were maintained by the Wartburg facility as required by the permits. Subsequently, Anderson created, or caused to be created, false logs for the facility. After the falsification became known, Heraeus fully cooperated with the federal investigation. In January 2009, Heraeus was convicted and sentenced to 18 months' probation and ordered to pay a \$350,000 fine.

Based upon the conviction, a Clean Air Act Listing was published whereby Anderson is prohibited from receiving any government contract, loan, or benefit at the violating facility until the conditions that gave rise to the Clean Air Act violation have been corrected.

This case is being conducted with the East Tennessee Environmental Crimes Task Force, which includes the EPA Criminal Investigation Division and OIG, the Tennessee Department of Environment and Conservation, and the Tennessee Valley Authority OIG. (Case Cost: \$150,234)

Details on Investigation of Libby Superfund Site Released to Public

In March 2006, the OIG opened a preliminary investigation of EPA asbestos clean-up efforts at the Superfund site in Libby, Montana, based on allegations that EPA failed to fully address scientific standards for clean-up and of possible contractor misconduct. The investigation determined that no criminal activity occurred but that further evaluation of potential risks to the public should be conducted.

An investigation summary was prepared in April 2006, detailing the investigative findings and noting a need for further evaluation of EPA's clean-up actions in Libby. This summary noted that difficult deadlines had been placed on EPA to complete a Risk Assessment and a Record of Decision regarding the clean-up, and the uncertainty that surrounds amphibole asbestos at Libby and its harmful potential effects needs further scientific research. Over the past several years, hundreds of cases of asbestos-related disease have been documented in the Libby area stemming from asbestos-contaminated vermiculite mined in the area.

On April 21, 2009, Public Employees for Environmental Responsibility (PEER) filed a lawsuit against the OIG seeking the release of the April 2006 memorandum. The OIG released this memorandum based on new Freedom of Information Act guidelines issued by the President and the Attorney General. This information was released in Report No. 09-P-0146, *Public Release of "Rumple Report" on Preliminary Investigation of EPA Clean-up of Amphibole Asbestos in Libby, Montana*, issued April 28, 2009.

Other Activities

Legislation and Regulations Reviewed

Section 4(a) of the Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the program and operation of EPA and to make recommendations concerning their impact. The primary basis for our comments are the audit, evaluation, investigation, and legislative experiences of the OIG, as well as our participation on the Council of the Inspectors General on Integrity and Efficiency. During the reporting period, we reviewed 46 proposed changes to legislation, regulations, policy, and procedures that could affect EPA and provided comments on 8. We also reviewed drafts of OMB circulars, program operations manual, directives, and reorganizations. Details on two items follow.

Interim Agency Guidance Regarding Communications with Federally Registered Lobbyists about Recovery Act Funds. On March 20, 2009, the President issued a memorandum titled, “Ensuring Responsible Spending of Recovery Act Funds.” Section 3 of the memorandum outlined specific requirements that Executive Branch employees must follow regarding communications with federally registered lobbyists about Recovery Act funds. On April 14, 2009, the Agency requested comments on draft guidance it prepared for its employees implementing these requirements. The OIG provided comments to strengthen and clarify the draft guidance to include a section called *Recovery Act Oversight* with a reference to the OIG Hotline to report any possible improprieties. Also, we recommended that if a person says he or she is not a federally registered lobbyist there needs to be a way to confirm this and the procedure needs to be outlined in the guidance.

Proposed Revision to EPA Order 3110.5A, *Clearance Procedures for Employees Separating or Transferring from EPA*. EPA’s Office of Human Resources proposed a revision to EPA Order 3110.5A, *Clearance Procedures for Employees Separating or Transferring from EPA*, addressing procedures for employees separating or transferring from EPA. We commented that when an employee transfers to another federal agency, the EPA supervisor may have some options available depending upon the conditions, and these options need to be outlined in the document. We also commented that departing employees have been the source of important information pertaining to possible waste and abuse. In fact, employees often feel compelled to leave due to their knowledge of possible waste and abuse that they may be reluctant to disclose while still in a particular job or under the supervision of a particular supervisor. We suggested that, in addition to the standard exit interview, each departing employee be offered the opportunity to meet with a member of the OIG or provide information anonymously through the OIG Hotline.

Costs of Financial Statement Audits Reduced 39 Percent

A “Most Efficient Organization” independent validation report issued by a contractor on September 11, 2009, found that the EPA OIG’s cost to conduct the FY 2008 financial statement audits from March 2008 to July 2009 was 39 percent lower than the baseline figure used under the OMB Circular A-76 process. The study was conducted by a contractor selected by EPA.

The OIG had won a sourcing competition under OMB Circular A-76, *Performance of Commercial Activities*, to conduct annual audits of EPA’s Consolidated Financial Statements, the Pesticide Registration Fund, and the Pesticides Reregistration and Expedited Processing Fund for the 5-year period beginning March 1, 2008. The actual cost of the three audits was approximately \$1.2 million less than the amount the OIG incurred conducting these audits for FY 2006 – the baseline year.

In addition to the cost findings, the independent review found that technical and cost performance was being adequately monitored, and that technical performance was of above-average acceptable quality. The review was not an audit, and there is no formal corrective action process connected to the review.

OIG Internal Control Assessment Identifies Challenges, Areas for Improvement

In accordance with FMFIA, Agency guidance, and the five GAO internal control standards, OIG has assessed the effectiveness of its internal controls and operations during this reporting period. In addition, the OIG assessed the progress to improve weaknesses identified in last year’s review. This included a survey of all OIG employees. Also, we determined that the OIG managed all Recovery Act responsibilities and activities in the OIG effectively and efficiently, used reliable and accurate data to report on Recovery Act activities, used all Recovery Act funds designated for the OIG solely for Recovery Act efforts, and monitored the applicable risks and internal controls identified in EPA’s Recovery Act Stewardship Plan. As a result, internal controls within the OIG are adequate to reasonably ensure the protection of programs, operations, functions, and resources against fraud, waste, abuse, and mismanagement, and the OIG is in compliance with all applicable laws and regulation.

OIG actions to improve internal controls included the following.

- Continued to develop and transfer OIG applications into a common information technology infrastructure and implemented numerous security protections.
- Received high security scores for implementing Federal Information Security Management Act requirements.

- Produced the OIG FY 2008 Annual Performance Report for full transparency of its financial management and operations.
- Entered into an Interagency Agreement with the Office of Personnel Management to improve the OIG hiring process.
- Developed a revised cost accounting process for individual office direct product rates and overhead allocation rates.
- Performed an organization-wide assessment of results and accomplishments.
- Participated in various performance and activity measurement processes for public reporting.
- Established an Efficiency Audits Product Line.
- Received a “clean opinion” from a rigorous external peer review on the quality and compliance of OIG audit and evaluation products with *Government Auditing Standards*.

We identified an internal management weakness related to staffing. The OIG has been directed by Congress to increase staffing. However, for the past 2 years the OIG has been frustrated at the lengthy process associated with depending upon EPA’s Human Capital services. Also, the OIG legacy investigative case management system has been identified as a weakness, and the OIG is exploring several case management systems used by agencies within the Inspector General community that perform a similar investigative function or mission.

Statistical Data

Profile of Activities and Results

Audit, Inspection, and Evaluation Operations Office of Inspector General Reviews		
	April 1, 2009, to September 30, 2009 (\$ in millions)	FY 2009
Questioned Costs *		
▪ Total	\$0.3	\$8.7
▪ Federal	\$0.3	\$1.5
Recommended Efficiencies *		
▪ Federal	\$25.3	\$62.3
Costs Disallowed to be Recovered		
▪ Federal	\$0.2	\$1.0
Costs Disallowed as Cost Efficiency		
▪ Federal	\$8.7	\$48.2
Reports Issued – OIG-Managed Reviews		
▪ EPA Reviews Performed by OIG	38	66
▪ EPA Reviews Performed by Independent Public Accountants	<u>6</u>	<u>12</u>
Total	44	78
Reports Resolved (Agreement by Agency officials to take satisfactory corrective actions) **	90	178

Audit, Inspection, and Evaluation Operations Other Reviews (Reviews Performed by Another Federal Agency or a Single Audit Act Auditor)		
	April 1, 2009, to September 30, 2009 (\$ in millions)	FY 2009
Questioned Costs *		
▪ Total	\$11.4	\$36.6
▪ Federal	\$11.4	\$13.3
Recommended Efficiencies *		
▪ Federal	\$0.0	\$0.0
Costs Disallowed to be Recovered		
▪ Federal	\$1.1	\$2.9
Costs Disallowed as Cost Efficiency		
▪ Federal	\$1.3	\$1.3
Reports Issued – Other Reviews		
▪ EPA Reviews Performed by Another Federal Agency	0	37
▪ Single Audit Act Reviews	<u>77</u>	<u>138</u>
Total	77	175
Agency Recoveries Recoveries from Audit, Inspection, and Evaluation Resolutions of Current and Prior Periods (cash collections or offsets to future payments) ***	\$8.4	\$17.4

Investigative Operations		
	April 1, 2009, to September 30, 2009 (\$ in millions)	FY 2009
Fines and Recoveries (including civil) ****	\$2.468	\$6.149
Cost Savings	\$0.280	\$0.280
Cases Open During Period	28	61
Cases Closed During Period	18	47
Indictments/Informations of Persons or Firms	8	14
Convictions of Persons or Firms	4	12
Civil Judgments/Settlements/Filings	0	0

* Questioned Costs and Recommended Efficiencies are subject to change pending further review in the audit, inspection, and evaluation resolution process. Total Questioned Costs include contracts of other federal agencies.

** Reports Resolved are subject to change pending further review.

*** Information on Recoveries from Audit, Inspection, and Evaluation Resolutions is provided by EPA's Office of Financial Management and is unaudited.

**** Total includes actions resulting from joint investigations.

Audit, Inspection, and Evaluation Report Resolution

Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending September 30, 2009

Report Category	No. of Reports	Report Issuance (\$ in thousands)		Report Resolution Costs Sustained (\$ in thousands)	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by April 1, 2009*	138	\$20,505	\$8,409	\$1,334	\$8,409
B. Which were issued during the reporting period	121	\$11,735	\$25,330	\$0	\$25,330
C. Which were issued during the reporting period that required no resolution	30	\$0	\$0	\$0	\$0
Subtotals (A + B - C)	229	\$32,240	\$33,739	\$1,334	\$33,739
D. For which a management decision was made during the reporting period	90	\$2,617	\$8,739	\$1,334	\$8,739
E. For which no management decision was made by September 30, 2009	139	\$29,623	\$25,000	\$0	\$25,000
F. Reports for which no management decision was made within 6 months of issuance	55	\$18,075	\$0	\$0	\$0

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

Status of Management Decisions on Inspector General Reports

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

Table 1 - Inspector General-issued Reports with Questioned Costs for Semiannual Period Ending September 30, 2009 (dollars in thousands)

Report Category	No. of Reports	Questioned Costs *	Unsupported Costs
A. For which no management decision was made by April 1, 2009 **	41	\$20,505	\$13,610
B. New reports issued during period	18	\$11,735	\$1,870
Subtotals (A + B)	59	\$32,240	\$15,480
C. For which a management decision was made during the reporting period	19	\$2,617	\$1,296
(i) Dollar value of disallowed costs	14	\$1,334	\$219
(ii) Dollar value of costs not disallowed	9	\$1,283	\$1,077
D. For which no management decision was made by September 30, 2009	40	\$29,623	\$14,184
Reports for which no management decision was made within 6 months of issuance	28	\$18,075	\$12,501

* Questioned costs include the unsupported costs.

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

Table 2 - Inspector General-issued Reports with Recommendations that Funds Be Put to Better Use for Semiannual Period Ending September 30, 2009 (dollars in thousands)

Report Category	No. of Reports	Dollar Value
A. For which no management decision was made by April 1, 2009 *	5	\$8,409
B. Which were issued during the reporting period	2	\$25,330
Subtotals (A + B)	7	\$33,739
C. For which a management decision was made during the reporting period	6	\$8,739
(i) Dollar value of recommendations from reports that were agreed to by management	6	\$8,739
(ii) Dollar value of recommendations from reports that were not agreed to by management	1	\$0
(ii) Dollar value of nonawards or unsuccessful bidders	0	\$0
D. For which no management decision was made by September 30, 2009	1	\$25,000
Reports for which no management decision was made within 6 months of issuance	0	\$0

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

Audits, Inspections, and Evaluations with No Final Action as of September 30, 2009, that Are Over 365 Days Past the Date of the Accepted Management Decision (including Audits, Inspections, and Evaluations in Appeal)

Audits, Inspections, and Evaluations	Total	Percentage
Program	35	44%
Assistance Agreements	25	32%
Contract Audits	0	0%
Single Audits	19	24%
Financial Statement Audits	0	0%
Total	79	100.0%

Hotline Activity

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

	Semiannual Period (April 1, 2009 - September 30, 2009)	Annual Period (October 1, 2008 - September 30, 2009)
Issues Open at the Beginning of the Period	37	12
Inquiries Received During the Period	435	568
Inquiries Closed During the Period	222	561
Inquiries Pending at the End of the Period	7	7
Issues Referred to Others		
OIG Offices	189	22
EPA Program Offices	41	77
Other Federal Agencies	12	21
State/Local Agencies	128	209

Summary of Investigative Results

Summary of Investigative Activity During Reporting Period

Cases Open as of April 1, 2009	94
Cases Opened During Period	28
Cases Closed During Period	18
Cases Pending as of September 30, 2009	104

Investigations Pending by Type as of September 30, 2009

	Superfund	Management	Split Funded	Recovery Act	Total
Contract	10	3	2	1	16
Assistance Agreement	0	37	0	1	38
Employee Integrity	0	16	0	0	16
Program Integrity	1	7	1	1	10
Computer Crime	0	5	0	0	5
Laboratory Fraud	1	11	0	0	12
Other	1	6	0	0	7
Total	13	85	3	3	104

Results of Prosecutive Actions

	EPA OIG Only	Joint *	Total
Criminal Indictments / Informations / Complaints	2	6	8
Convictions	1	3	4
Civil Judgments / Settlements / Filings	0	0	0
Fines and Recoveries (including Civil)	\$0	\$2,468,140	\$2,468,140
Prison Time	0 months	128 months	128 months
Prison Time Suspended	0 months	0 months	0 months
Probation	60 months	180 months	240 months
Community Service	0 hours	50 hours	50 months

Administrative Actions

	EPA OIG Only	Joint *	Total
Suspensions	0	12	12
Debarments	0	8	8
Compliance Agreements	0	0	0
Other Administrative Actions	16	1	17
Total	16	21	37
Administrative Recoveries	\$0	\$0	\$0

* With another federal agency.

Scoreboard of Results

Scoreboard of OIG FY 2009 Performance Results Compared to FY 2009 Annual Performance Goal Targets

All results reported in FY 2009, from current and prior years' work, are as reported in OIG Performance Measurement and Results System, Inspector General Operations Reporting System, and Inspector General Enterprise Management System.

OIG FY 2009 Government Performance and Results Act Annual Performance Targets Compared to FY 2009 Results Reported	Supporting Measures
Goal: Contribute to Human Health and Environmental Quality Through Improved Business Practices, Accountability and Integrity of Program Operations	
Environmental Improvements/Actions/Changes Improvements in Business/Systems/Efficiency Risks Reduced or Eliminated <i>Target: 318; Reported: 272 (86%)</i> ●	6 Legislative/regulatory changes/decisions 2 Environmental/mgmt. best practices implemented 38 Environmental/mgmt. policy, process, practice, control change actions 43 Certifications/validations/verifications/corrections 15 Environment/mgmt. operational/control risks reduced or eliminated 103 Actions taken or resolved prior to report issuance (not otherwise reported) 65 Recommendations reported as implemented, previously identified unimplemented by follow-up*
Environmental & Business Recommendations, Challenges, Best Practices, and Risks Identified <i>Target: 903; Reported: 983 (109%)</i> ●	785 Recommendations (for Agency/stakeholder action) 26 Critical congressional or public management concerns addressed 13 Best environmental/mgmt. practices identified 81 Referrals for agency action 7 New environmental/mgmt. operational risks or challenges identified 71 Unimplemented recommendations identified
Return on Investment: Potential Dollar Return as Percentage (120%) of OIG Budget \$55.7 Million <i>Target: \$66.8 M; Reported: \$83.3 M (150%)</i> ●	<i>(Dollars in millions)</i> \$ 14.8 Questioned costs net EPA \$ 62.3 Recommended efficiencies, costs saved (EPA) \$ 6.2 Fines, recoveries, settlements
Criminal, Civil, and Administrative Actions Reducing Risk of Loss/Operational Integrity <i>+Target: 80; Reported: 95 (119%)</i> ●	12 Criminal convictions 14 Indictments/informations/complaints 55 Administrative actions 14 Allegations disproved
Other (no targets established) Sustained Monetary Recommendations and Savings Achieved from Current and Prior Periods: \$53.5 M Sustained Environmental and Management Recommendations for Resolution Action: 365 American Recovery and Reinvestment Act Activity Results Reports Issued: 253	<i>(Dollars in Millions)</i> \$ 4.0 Questioned costs sustained \$ 49.5 Cost efficiencies sustained or realized 365 Sustained recommendations 63 Awareness briefings 66 OIG-produced reports 187 Reports by other audit entities w/ OIG oversight

* Reported by the Agency as implemented of those reported by the OIG as unimplemented.

Appendices

Appendix 1 - Reports Issued

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

Report No.	Project Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
PERFORMANCE REPORTS						
09-P-0144	EPA Needs to Improve Internal Controls to Increase Cost Recovery	27-Apr-09	0	0	0	\$25,000,000
09-P-0147	EPA Can Improve Its Process for Establishing Peer Review Panels	29-Apr-09	0	0	0	0
09-P-0148	Compendium of Unimplemented Recommendations as of March 31, 2009	30-Apr-09	0	0	0	0
09-P-0151	EPA Does Not Provide Oversight of Radon Testing Accuracy and Reliability	12-May-09	0	0	0	0
09-P-0152	Results of Hotline Complaint Review of EPA's Antimicrobial Testing Program	27-May-09	0	0	0	0
09-P-0162	Contaminated Soil Waste Repository at East Mission Flats, Idaho	8-Jun-09	0	0	0	0
09-P-0176	Regional Public Liaison Program Needs Greater Focus on Results	24-Jun-09	0	0	0	0
09-P-0184	Security Planning for Exchange Network Needs Improvement	30-Jun-09	0	0	0	0
09-P-0185	Network Vulnerability Assessment: EPA's Great Lakes National Program Office	30-Jun-09	0	0	0	0
09-P-0186	Network Vulnerability Assessment: EPA's National Computer Center	30-Jun-09	0	0	0	0
09-P-0187	Network Vulnerability Assessment: Region 8	30-Jun-09	0	0	0	0
09-P-0188	Network Vulnerability Assessment: EPA's Potomac Yard Buildings	30-Jun-09	0	0	0	0
09-P-0189	Network Vulnerability Assessment: EPA's 1310 L Street Building	30-Jun-09	0	0	0	0
09-P-0197	EPA Should Delay Deploying New Acquisition System until Testing Is Completed	20-Jul-09	0	0	0	0
09-P-0203	EPA Should Use FMFIA to Improve Programmatic Operations	6-Aug-09	0	0	0	0
09-P-0206	Efficiencies to the Shared Service Centers Not Delivered	11-Aug-09	0	0	0	0
09-P-0222	Office of Inspector General Access to Agency Information and Personnel	25-Aug-09	0	0	0	0
09-P-0223	EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards	26-Aug-09	0	0	0	0
09-P-0226	ECHO Data Quality Audit Phase I Results: Security Controls Needed	31-Aug-09	0	0	0	0
09-P-0227	Network Vulnerability Assessment: EPA's Research Triangle Park Finance Center	31-Aug-09	0	0	0	0
09-P-0229	EPA Should Stop Providing Estimates of Total Labor Hours to Contractors	9-Sep-09	0	0	0	0
09-P-0231	EPA Needs a Cohesive Plan to Clean Up Great Lakes Areas of Concern	14-Sep-09	0	0	0	0
09-P-0232	EPA's Office of Research and Development Could Better Use FMFIA	15-Sep-09	0	0	0	0
09-P-0233	EPA Can Better Account for Homeland Security Presidential Directive-12 Property	15-Sep-09	0	0	0	0
09-P-0235	EPA Needs an Oversight Program for Protocol Gases	16-Sep-09	0	0	0	0
09-P-0240	Delays Prevent EPA from Implementing Information Security Vulnerability Program	21-Sep-09	0	0	0	0
09-P-0241	Uniform Policy Needed for Superfund Unliquidated Obligations	22-Sep-09	0	0	0	\$330,370
09-P-0242	Contractor Invoice Internal Controls Need Improvement	23-Sep-09	0	0	0	0
09-P-0243	Sampling Generally Confirms EPA's Data at Jones Superfund Site in New York	23-Sep-09	0	0	0	0
	TOTAL PERFORMANCE REPORTS = 29		\$0	\$0	\$0	\$25,330,370
ASSISTANCE AGREEMENT REPORTS						
09-N-0150	EPA's Unliquidated Obligations for Grants	1-May-09	0	0	0	0
	TOTAL ASSISTANCE AGREEMENT REPORTS = 1		\$0	\$0	\$0	\$0
SINGLE AUDIT REPORTS						
09-3-0137	Elkland Borough of - FY 2007	13-Apr-09	0	0	0	0
09-3-0138	Fort Worth City of - FY 2006	14-Apr-09	0	0	0	0
09-3-0139	Albuquerque, City of - FY 2006	15-Apr-09	0	0	0	0
09-3-0140	Anaconda-Deer Lodge County - FY 2007	20-Apr-09	\$16,576	0	0	0
09-3-0141	Assiniboine and Sioux Tribes of the Fort Peck Indian Reservation - FY 2007	20-Apr-09	0	0	0	0
09-3-0142	North Carolina State of - FY 2007	23-Apr-09	0	0	0	0
09-3-0143	Hawaii Department of Health - FY 2007	23-Apr-09	0	0	0	0
09-3-0153	Sandia Pueblo of - FY 2005	4-Jun-09	0	\$87,234	0	0
09-3-0154	Sandia Pueblo of - FY 2006	4-Jun-09	0	\$99,443	0	0
09-3-0155	Association of Bay Area Governments - FY 2007	4-Jun-09	0	0	0	0
09-3-0156	Ak-Chin Indian Community - FY 2007	4-Jun-09	0	0	0	0
09-3-0157	Barona Group of the Capitan Grande Band of Mission Indians - FY 2007	4-Jun-09	0	0	0	0
09-3-0158	Bishop Paiute Tribe - FY 2007	8-Jun-09	0	0	0	0
09-3-0159	Cahto Tribe of the Laytonville Rancheria - FY 2006	8-Jun-09	0	\$142,465	0	0
09-3-0160	California State of - FY 2007	8-Jun-09	0	0	0	0
09-3-0165	Colorado State of - FY 2007	17-Jun-09	0	0	0	0
09-3-0166	Connecticut State of - FY 2007	17-Jun-09	0	0	0	0
09-3-0167	Northway Village Council - FY 2004	17-Jun-09	0	\$21,544	0	0

Report No.	Project Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
09-3-0168	Pala Band of Mission Indians - FY 2007	22-Jun-09	0	0	0	0
09-3-0169	Carson Water Subconservancy District - FY 2007	22-Jun-09	0	0	0	0
09-3-0170	Maine State of - FY 2007	22-Jun-09	0	0	0	0
09-3-0171	Saltillo City of - FY 2006	23-Jun-09	0	0	0	0
09-3-0173	Lake Michigan Air Directors Consortium - FY 2008	23-Jun-09	0	0	0	0
09-3-0174	Puerto Rico Water Pollution Control Revolving Fund - FY 2007	23-Jun-09	0	0	0	0
09-3-0175	Oregon State of - FY 2007	24-Jun-09	0	0	0	0
09-3-0177	Puerto Rico Department of Health - FY 2006	24-Jun-09	0	0	0	0
09-3-0178	Puerto Rico Environmental Quality Board - FY 2007	25-Jun-09	0	0	0	0
09-3-0179	Pennsylvania Commonwealth of - FY 2007	26-Jun-09	0	0	0	0
09-3-0180	Virgin Islands, U.S. Government of - FY 2006	26-Jun-09	0	\$44,003	0	0
09-3-0181	Kentucky Commonwealth of - FY 2007	29-Jun-09	0	0	0	0
09-3-0182	Texas State of - FY 2007	29-Jun-09	0	0	0	0
09-3-0183	Connecticut, State of - FY 2008	30-Jun-09	0	0	0	0
09-3-0190	New Hampshire State of - FY 2007	1-Jul-09	0	0	0	0
09-3-0191	New Hampshire State of - FY 2008	1-Jul-09	0	0	0	0
09-3-0192	Delaware State of - FY 2008	10-Jul-09	0	0	0	0
09-3-0193	Colorado State of - FY 2008	10-Jul-09	0	0	0	0
09-3-0194	American Samoa Territory of - FY 2007	10-Jul-09	0	0	0	0
09-2-0195	Quality Control Review of Single Audit for Town of Worthington, WV - FY 2004	14-Jul-09	0	0	0	0
09-3-0198	Iowa State of - FY 2008	30-Jul-09	0	0	0	0
09-3-0199	Puerto Rico Water Pollution Control Revolving Fund	30-Jul-09	0	0	0	0
09-3-0201	Palatka City of - FY 2008	5-Aug-09	0	0	0	0
09-3-0202	Fort Worth City of - FY 2007	6-Aug-09	0	0	0	0
09-3-0204	Montana State of - FY 2007	6-Aug-09	0	0	0	0
09-3-0205	Florida State of - FY 2008	7-Aug-09	0	0	0	0
09-3-0207	Kwethluk Ira Council - FY 2007	12-Aug-09	0	0	0	0
09-3-0208	Chevak Traditional Council - FY 2004	12-Aug-09	0	0	0	0
09-3-0209	Chevak Traditional Council - FY 2005	12-Aug-09	0	0	0	0
09-3-0210	Guam Government of - FY 2007	12-Aug-09	0	\$17,503	0	0
09-3-0211	Georgia State of - 2008	12-Aug-09	0	0	0	0
09-3-0212	Montgomery Town of - FY 2007	14-Aug-09	0	0	0	0
09-3-0213	National Congress of American Indians Fund - FY 2007	17-Aug-09	0	\$36,120	0	0
09-3-0214	Puerto Rico Aqueduct and Sewer Authority - FY 2006	17-Aug-09	0	0	0	0
09-3-0215	Norfolk, County of - FY 2007	18-Aug-09	0	0	0	0
09-3-0216	Arkansas, State of - FY 2008	18-Aug-09	0	0	0	0
09-3-0218	Northern Mariana Islands, Commonwealth of - FY 2007	24-Aug-09	0	\$17,027	0	0
09-3-0219	Texas, State of - FY 2008	25-Aug-09	\$9,417,244	\$343,386	0	0
09-3-0220	Pennsylvania, Commonwealth of - FY 2008	25-Aug-09	0	0	0	0
09-3-0221	Arizona, State of - FY 2008	25-Aug-09	\$14,160	0	0	0
09-3-0224	Howard University - FY 2008	28-Aug-09	0	0	0	0
09-3-0228	New Mexico Environment Department - FY 2006	8-Sep-09	0	0	0	0
09-3-0230	Guam Waterworks Authority - FY 2007	10-Sep-09	0	0	0	0
09-3-0234	Guam Waterworks Authority - FY 2008	15-Sep-09	0	0	0	0
09-3-0236	New Mexico Environment Department - FY 2007	17-Sep-09	0	0	0	0
09-3-0237	New Mexico Environment Department - FY 2008	17-Sep-09	0	0	0	0
09-3-0238	Guam Government of - FY 2008	17-Sep-09	\$42,377	\$109,487	0	0
09-3-0239	Puerto Rico University of - FY2008	17-Sep-09	0	\$10,439	0	0
09-3-0244	Tonkawa Tribe of Indians of Oklahoma - FY 2007	23-Sep-09	0	0	0	0
09-3-0245	Detroit, City of - FY 2006	23-Sep-09	0	0	0	0
09-3-0246	Maine State of - FY 2008	24-Sep-09	0	0	0	0
09-3-0248	Northern Mariana Islands, Commonwealth of - FY 2008	24-Sep-09	\$68,654	\$98,264	0	0
09-3-0249	Detroit, City of - FY 2007	24-Sep-09	0	0	0	0
09-3-0250	Cumberland, Town of - FY 2004	29-Sep-09	0	0	0	0
09-3-0251	National Fish and Wildlife Foundation - FY 2008	29-Sep-09	0	0	0	0
09-3-0252	Oglala Sioux Tribe - FY 2005	29-Sep-09	0	\$307,323	0	0
09-3-0253	Oglala Sioux Tribe - FY 2006	30-Sep-09	0	\$530,042	0	0
09-3-0254	Rutland, City of - FY 2008	30-Sep-09	0	0	0	0
09-3-0255	Puerto Rico Department of Agriculture - FY 2004	30-Sep-09	\$29,330	\$5,376	0	0
TOTAL SINGLE AUDIT REPORTS = 77			\$9,588,341	\$1,869,656	\$0	\$0
CONTRACT REPORTS						
09-4-0133	STN Environmental Contract Review	3-Apr-09	0	0	0	0
09-4-0134	Call Henry Labor Verification Review	3-Apr-09	0	0	0	0
09-4-0135	Tetra Tech EM Inc Base Year Labor Verification Review	3-Apr-09	\$276,875	0	0	0
09-4-0225	CERCLA Credit Claim - Concord NC	31-Aug-09	0	0	0	0
TOTAL CONTRACT REPORTS = 4			\$276,875	\$0	\$0	\$0
FINANCIAL STATEMENT REPORTS						
09-1-0172	FYs 2008 and 2007 Statements for Pesticides Reregistration/Processing Fund	23-Jun-09	0	0	0	0
09-2-0161	Agreed Upon Procedures on EPA's FY 2009 First Quarter Financial Statements	8-Jul-09	0	0	0	0
09-2-0200	Agreed Upon Procedures on EPA's FY Second Quarter Financial Statements	30-Jul-09	0	0	0	0
09-2-0247	Agreed Upon Procedures on EPA's FY 2009 Third Quarter Financial Statements	24-Sep-09	0	0	0	0
TOTAL FINANCIAL STATEMENT REPORTS = 4			\$0	\$0	\$0	\$0

Report No.	Project Title	Date	Questioned Costs			Federal Recommended Efficiencies
			Ineligible Costs	Unsupported Costs	Unreasonable Costs	
AMERICAN RECOVERY AND REINVESTMENT ACT REPORTS						
09-X-0136	Open Audit Recommendations Affecting Recovery Act Activities	9-Apr-09	0	0	0	0
09-X-0145	Management Integrity Processes for Recovery Act Activities Needs Strengthening	27-Apr-09	0	0	0	0
09-X-0196	Open Audit Recommendations for Assistance Agreement and Contract Recipients	14-Jul-09	0	0	0	0
09-X-0217	Grant Accrual Methodology May Impact of Recovery Act Funds	19-Aug-09	0	0	0	0
	TOTAL AMERICAN RECOVERY AND REINVESTMENT ACT REPORTS = 4		\$0	\$0	\$0	\$0
OTHER REPORTS						
09-N-0146	Public Release of "Rumple Report" on Investigation in Libby, Montana	28-Apr-09	0	0	0	0
09-N-0149	Congressionally Requested Report on Jurisdictional Uncertainty on Clean Water Act	30-Apr-09	0	0	0	0
	TOTAL OTHER REPORTS = 2		\$0	\$0	\$0	\$0
	TOTAL REPORTS ISSUED = 121		\$9,865,216	\$1,869,656	\$0	\$25,330,370

Appendix 2 - Reports Issued Without Management Decisions

For Reporting Period Ended September 30, 2009

The Inspector General Act requires a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period, an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report. OMB Circular A-50 requires resolution within 6 months of a final report being issued. In this section, we report on audits with no management decision or resolution within 6 months of final report issuance. In the summaries below, we note the Agency's explanation of the reasons management decision has not been made, the Agency's desired timetable for achieving a management decision, and the OIG follow-up status as of September 30, 2009.

Office of Air and Radiation

Report No. 2005-P-00003, Development of the Proposed MACT for Utility Units, February 3, 2005

Summary: Evidence indicated that EPA senior management instructed EPA staff to develop a Maximum Achievable Control Technology (MACT) standard for mercury that would result in national emissions of 34 tons annually, instead of basing the standard on an unbiased determination of what the top performing coal-fired units were achieving in practice. The Clean Air Act requires that a MACT standard should, at a minimum, be based on the emissions levels achieved by the top performing 12 percent of units – not a targeted national emissions result. We believed it was likely that the standard understated the average amount of mercury emissions reductions achieved by the top performing 12 percent of power units. Thus, the MACT standard, if adopted, would not achieve the maximum emission reductions achievable. Shortly after we issued our report, EPA de-listed mercury as an air toxic subject to MACT standards and issued the Clean Air Mercury Rule that established a trading program for mercury emissions. However, 16 States filed lawsuits challenging the rule, and we agreed to hold the recommendations in abeyance until the court case is settled. As of October 17, 2008, the Agency had asked the Supreme Court to review the federal appeals court ruling that struck down the cap-and-trade program. We continue to hold the recommendations in abeyance until EPA decides to proceed.

Agency Explanation: Per the OIG, resolution is on hold, beyond Agency control. EPA received a ruling on the Clean Air Mercury Rule and is determining the next action.

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-P-0020, MACT Implementation Progress and Challenges, October 31, 2007

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

Agency Explanation: The Agency concurs with the objective of Recommendation 3-2 but does not have the authority to take the corrective action suggested by the OIG. Agency requesting the OIG to reconsider the feasibility of the recommendation.

OIG Follow-up Status: Resolution under negotiation in Headquarters

Report No. 08-P-0174, Efforts to Address Indoor Risks from Radon, June 30, 2008

Summary: Nearly two decades after passage of the 1988 Indoor Radon Abatement Act, exposure to indoor radon continues to grow. Efforts to reduce exposure through mitigation or building with radon-resistant new construction have not kept pace. EPA agreed to develop a strategy for achieving the long-term goal of the Act, as well as other recommendations. For our recommendation that EPA identify limitations to meeting the goal to Congress, EPA responded that it does not believe the Act's goal is achievable, but did not agree to notify Congress that the goal is unachievable. We consider this issue open and unresolved.

Agency Explanation: On March 20, 2009, the OIG sent a memo to the Office of Air and Radiation's Acting Assistant Administrator closing recommendations 2-1 and 2-3. The OIG requested additional information/clarification or commitments from the Office of Air and Radiation for recommendations 2-2 and 2-4. The Office of Air and Radiation is currently preparing a response addressing the OIG's concerns and will need to reach agreement on a planned completion date of December 31, 2011.

OIG Follow-up Status: Incomplete response received

Report No. 09-P-0125, Effect of Efforts to Address Air Emissions at Selected Ports, March 23, 2009

Summary: While EPA has issued air emissions regulations for most port sources, EPA's actions to address air emissions from large oceangoing vessels in U.S. ports have not yet achieved the goals for protecting human health. The Clean Air Act provides EPA with the authority to regulate emissions from oceangoing vessel engines. EPA has deferred taking a position on whether it has authority to regulate emissions from foreign-flagged vessels, which account for about 90 percent of U.S. port calls. We recommended that EPA assess its authorities and responsibilities under the Clean Air Act to regulate air emissions from foreign-flagged vessels in U.S. ports, and report any shortfalls to Congress, but EPA's comments were not responsive. We also recommended that EPA revise its ports strategy to include a transformation plan, but EPA did not agree. In its 90-day response to the OIG in June 2009, EPA agreed with the report recommendations and proposed corrective actions. The OIG agreed with the Agency's action plan for recommendations 2-2 and 3-1, and closed these recommendations in July 2009. The OIG requested additional information/clarification from EPA's Office of Air and Radiation for recommendation 2-1 that EPA assess whether there are any shortfalls in its statutory authority under the Clean Air Act to regulate air emissions from foreign-flagged vessels in U.S. ports and, if so, report these to Congress.

Agency Explanation: The Office of Air and Radiation is leaving recommendation 2-1 open for now pending further discussion with the OIG.

OIG Follow-up Status: Incomplete response received

Financial Analysis and Rate Negotiation Service Center**Report No. 2004-1-00099, Lockheed Martin Services Group - FYE 12/31/2002 Incurred Cost, August 23, 2004**

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2006-4-00165, National Academy of Sciences - FY 2006 Indirect/ODC System, September 27, 2006

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-1-00016, URS Corporation (c/o URS Greiner, Inc.) – FY 2001 Incurred Cost, November 13, 2006

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-1-00059, National Academy of Sciences – FY 12/31/2004 Incurred, April 5, 2007

Summary: In DCAA's opinion the claimed direct costs are acceptable; however, there are \$787,774 in questioned indirect costs, of which \$70,900 are applicable to EPA contracts.

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-4-00058, SAIC – Companies 1, 6, and 9 – FY 2006 Floorchecks, April 30, 2007

Summary: DCAA determined that certain labor practices require corrective action to improve the reliability of the contractor's labor accounting system. DCAA did not express an opinion on the adequacy of the contractor's labor accounting system taken as a whole.

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-1-00090, ABT Associates Inc. – FY 2002 Incurred Cost, August 29, 2007

Summary: DCAA questioned a total of \$2,206,870, involving \$5,363 of proposed direct costs and \$2,201,507 of proposed indirect costs and rates. EPA's share of the questioned indirect costs is \$123,686. None of the questioned direct costs impact contracts.

Agency Explanation: Audit resolution on hold due to other cognizant federal agency (U.S. Agency for International Development).

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-1-00097, National Academy of Sciences FYE 12/31/2003 Incurred Cost, September 20, 2007

Summary: In DCAA's opinion, the contractor's questioned costs increased to \$300,645, of which EPA's portion is \$27,058 (9 percent). This supplemental report supersedes the prior report in its entirety.

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

IG Follow-up Status: Resolution pending receipt of additional information

Report No. 2007-4-00079, Weston Solutions, Inc. – FY 2006 Billing System, September 25, 2007

Summary: In DCAA's opinion, the contractor's billing system and related internal control policies and procedures were inadequate in part.

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-4-0002, SAIC – Company 1 Compensation Follow-Up, October 2, 2007

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-1-0114, Weston Solutions Inc. – FY 12/31/2004 Incurred Cost, March 24, 2008

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-1-0129, National Academy of Science – FY 2005 Incurred Costs, April 10, 2008

Summary: In DCAA's opinion, the contractor's direct costs are acceptable; however, DCAA questioned the proposed carry-forward amounts of \$377,330, of which EPA's share is 12 percent, or \$45,280.

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-1-0131, Washington Group International, Inc. – FY 2001 Incurred Costs, April 15, 2008

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

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

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-4-0157, EG&G – FY 2006 Accounting System Audit, May 20, 2008

Summary: In DCAA's opinion, the contractor's control environment and the overall accounting system and related internal control policies and procedures were inadequate in part. DCAA noted one significant deficiency in the design or operation of the internal control structure. The deficiency could adversely affect the organization's ability to record, process, summarize, and report costs in a manner that is consistent with applicable government contract laws and regulations.

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-4-0207, Metcalf & Eddy Inc. – Floorcheck, July 24, 2008

Summary: DCAA believes certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system.

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-4-0208, MACTEC Engineering & Consulting, Inc. – CAS 409, July 24, 2008

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-4-0308, Tetra Tech EC, Inc. - EDP General Controls, September 30, 2008

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 09-4-0018, Booz Allen Hamilton – Cost Accounting Standard 409, November 5, 2008

Summary: In DCAA's opinion, the contractor is in noncompliance with Cost Accounting Standards 409-50(e)(1), 409-50(e)(2), and 409-50(e)(4).

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

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 09-1-0034, Lockheed Martin Services Group – FY 2006 Incurred Cost, November 24, 2008

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

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

OIG Follow-up Status: Resolution pending receipt of additional information

Grants and Interagency Agreements Management Division**Report No. 2002-2-00008, MBI International Assistance Agreement, January 29, 2002**

Summary: MBI did not have adequate justification to support the award of sole source contracts. Also, MBI's procurement practices did not meet federal requirements. As a result, \$1,301,365, consisting of \$1,201,857 in contract costs and \$99,508 in consultant costs, is not eligible for federal reimbursement. Further, there were apparent conflicts of interest between MBI, its subsidiary (GRT), and companies created by GRT.

Agency Explanation: Office of Grants and Debarment (OGD) forwarded the final decision letter to the OIG for review in September 2009, supported by a proposed deviation from two regulatory requirements. The OIG will respond by October 21, 2009. OGD will address any comments and finalize the final decision letter by November 30, 2009.

OIG Follow-up Status: Incomplete response. OIG will evaluate the proposed final determination once the deviation is approved.

Report No. 2003-S-00001, Region 7 Grants Proactive, May 29, 2002

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

Agency Explanation: EPA anticipates issuing the final determination letter by December 31, 2009. Recommendations 4, 6, and 7 can be addressed once the review of financial documentation submitted by the recipient is completed. It is anticipated that many of the costs may be disallowed because the financial documentation provided by the recipient is incomplete. The financial documentation provided by the recipient in support of questioned costs includes progress reports, miscellaneous receipts, and some time sheets, but many of the costs cannot be substantiated. Expect resolution by December 31, 2009.

OIG Follow-up Status: Incomplete response received

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

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

Agency Explanation: The Branch Chief and Associate Award Official have been meeting weekly to review the audit findings and have prepared a draft final determination addressing most of the issues identified in the audit report. We have sought consultation with Office of General Counsel to discuss the interpretation of program income as it relates to membership fees in accordance with 2 Code of Federal Regulations 215.24. Further meetings with the Office of General Counsel and the Grants and Interagency Agreements Management Division (GIAMD) Director are required to evaluate the recommendation to count membership fees as program income before a final determination can be issued. We expect a possible resolution and a final determination letter to be issued by December 31, 2009. It is anticipated that a portion of the questioned cost allocated to indirect costs may be disallowed because the recipient has not provided a copy of its negotiated rate for the audit period. Expect resolution by December 31, 2009.

OIG Follow-up Status: No response

Report No. 2005-3-00036, National Indian Health Board, FY 2002, December 30, 2004

Summary: The Board was allocating salary costs to grants based on predetermined formulas. No support, in the form of time sheets, was located for those allocations. Also, amounts charged to various grants were not always supported by original documentation. Therefore, we questioned \$31,960 as unsupported.

Agency Explanation: The recipient claims to have revised its policies to address the time sheet and original document issues, but the policy remains very broad and general. OGD has received responses from the recipient and is reviewing the documentation information. OGD expects the final determination letter on November 30, 2009.

OIG Follow-up Status: No response

Report No. 2006-3-00006, Alfred University, FY 2004, October 13, 2005

Summary: The University's accounting system provides certified payroll information on an individual grant basis. However, the payroll distribution system does not provide a proportionate breakdown of each employee's total time between each sponsored program he/she may be working on and other nonsponsored activities. The auditor questioned costs of \$649,506, but could not determine the direct impact upon EPA's program.

Agency Explanation: GIAMD reviewed the affidavits, payroll authorization, and supporting documentation that the recipient submitted and determined that the information does not demonstrate the proportionate breakdown of time and effort. GIAMD is still unable to determine how much of the personnel costs should be allowed since the audit reports do not identify how much of labor related to EPA grants. Upon consultation with the GIAMD Director on the next steps, the decisions were made to notify the recipient of our proposed determination, provide it with the opportunity to submit additional contemporaneous documentation on the total amount charged for personnel and fringe benefits, and request further guidance from OIG on how to quantify the amount of labor related to EPA grants. GIAMD contacted OIG for further guidance and is now awaiting a response. The final determination letter is expected by January 31, 2010.

OIG Follow-up Status: No response

Report No. 2006-4-00122, Association of State & Interstate Water Pollution Control Administrators, July 31, 2006

Summary: The Association did not comply with the financial and program management standards and the procurement standards promulgated in Title 40, Code of Federal Regulations, Subchapter B, Part 30. For example, the Association could not provide support for any of its general journal entries, included duplicate recorded costs in its accounting system, could not always trace grant draws to the accounting records, and could not always support labor charged to the EPA grants. As a result, we questioned as unsupported a total of \$1,883,590 in EPA grant payments for seven grants.

Agency Explanation: OGD met with the OIG on July 29, 2009, to discuss our progress on this audit. After several additional internal meetings, OGD and an attorney advisor from the Office of General Counsel met with the recipient on August 18, 2009, to outline the final items that need to be addressed before the resolution process can be completed. Five final items or issues were discussed and mutually agreed upon. Each party left this meeting with specific assignments concerning these issues. At this point, time is needed to resolve these items. Due to the complexity of these issues, OGD anticipates a final decision letter by December 31, 2009.

OIG Follow-up Status: No response

Report No. 2007-4-00027, National Rural Water Association - Congressional, November 30, 2006

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

Agency Explanation: OGD has received the Indirect Cost Proposal and revised Policy and Procedures for cash draws that was requested and now OGD staff is working with the Compliance Team in resolving the unsupported cost cited in the report. OGD expects the final determination letter in November 2009.

OIG Follow-up Status: No response

Report No. 2007-3-00037, Alfred University - FY 2005, December 11, 2006

Summary: The University's accounting system provided certified payroll information on an individual grant basis. However, the payroll distribution system did not provide a proportionate breakdown of each employee's total time between each sponsored program he/she may be working on and other nonsponsored activities. The auditor questioned costs of \$649,506, but could not determine the direct impact on EPA's program

Agency Explanation: GIAMD reviewed the affidavits, payroll authorization, and supporting documentation that the recipient submitted and determined that the information does not demonstrate the proportionate breakdown of time and effort. GIAMD is still unable to determine how much of the personnel costs should be allowed since the audit reports do not identify how much of the labor is related to EPA grants. Upon consultation with the GIAMD Director on the next steps, the decisions were made to notify the recipient of our proposed determination, to provide the recipient with the opportunity to submit additional contemporaneous documentation on the total amount charged for personnel and fringe benefits, and to request further guidance from OIG on how to quantify the amount of labor related to EPA grants. GIAMD contacted OIG for further guidance and is now awaiting a response. The final determination letter is expected January 31, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0038, Water Environmental Federation - FY 2006, November 21, 2009

Summary: In the prior year audit, the single auditor found that some expenses had been charged twice to this grant. To correct this error, the recipient was required to post an adjusting entry; however, the entry was not posted until almost a year after the errors were identified.

Agency Explanation: OGD has received and reviewed the response from the recipient and expects the final determination letter November 15, 2009.

OIG Follow-up Status: No response

Report No. 09-3-0062, Missouri, University of - FY 2006, December 18, 2008

Summary: The University did not have an effective system of internal control in place to ensure compliance with the activities allowed or unallowed costs/cost principles compliance requirements. The auditors identified two systemic issues related to the University's time and effort reporting. These issues involved the procurement and suspension and debarment, and subrecipient monitoring. The auditors questioned \$37,453 related to EPA grants.

Agency Explanation: OGD is reviewing the report. The report includes findings of inadequate internal controls and questioned cost totaling \$90,973. The estimated time for audit resolution is December 30, 2009.

OIG Follow-up Status: No response

Report No. 09-3-0073, Environmental Council of the States and Affiliates - FY 2006, January 6, 2009

Summary: The Council did not properly segregate duties. Journal entries prepared by the accountant were not subject to a formal review and approval process. Major accounts were not reconciled to supporting schedules in a timely manner, while others remained unreconciled and contained material misstatements. The Council's accounting system did not consistently reflect an accurate recording of federal grant revenue and receivables. The Council's reporting package for the fiscal year ended September 30, 2006, was still not submitted 9 months after the audit period. Compensation time was not properly charged.

Agency Explanation: The final determination letter is being reviewed by the Approving Official and is expected to be signed by October 30, 2009.

OIG Follow-up Status: No response

Office of Acquisition Management**Report No. 08-4-0146, Cambridge Labor Charging Verification Review, May 1, 2008**

Summary: Based on our review, nothing came to our attention that caused us to believe that the labor charges (including subcontract labor) billed under Contract EP-W-05-044 are not in compliance with federal laws, regulations, or terms and conditions of the contract. However, during our review, we noted a potential violation of Title 13, Code of Federal Regulations, Part 121, *Small Business Size Regulations*, which we believe requires immediate attention.

Agency Explanation: On April 1, 2009, the Contracting Officer forwarded the required documentation to the Small Business Administration. Receipt of the Small Business Administration's determination was anticipated in June or July 2009, but as of September 25, 2009, it had not been received. Numerous attempts by the Contracting Officer to obtain status on the determination have gone unanswered. However, since the results of the Small Business Administration's review will have no impact on contract EP-W-05-044 or any other contracts with Cambridge Environmental, the Office of Acquisition Management recommended that the audit be closed. However, the OIG does not agree with the Office of Acquisition Management that the audit should be closed. The Office of Acquisition Management is in the process of scheduling a meeting with the OIG to seek agreeable resolution of this audit. A time frame for resolution will also be discussed during the meeting.

OIG Follow-up Status: Incomplete response received

Office of Enforcement and Compliance Assurance**Report No. 08-P-0278, Strategic Planning in Priority Enforcement Areas, September 25, 2008**

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

Agency Explanation: The Office of Enforcement and Compliance Assurance and the OIG met to discuss this report and the Agency's progress. The Office of Enforcement and Compliance Assurance provided the information requested by the OIG and believes the current request to the regions satisfies the commitment made to the OIG. The Office of Enforcement and Compliance Assurance will proceed with the first round of information collection and then assess next steps. Resolution expected by December 15, 2009.

OIG Follow-up Status: Incomplete response received

Office of Environmental Information**Report No. 09-P-0127, Freedom of Information Act, March 25, 2009**

Summary: EPA procedures did not always ensure that Freedom of Information Act responses were timely or that appeals were processed timely. Some of the annual personnel and cost statistics gathered and provided to the National Freedom of Information Act Officer for inclusion in the annual report to the Department of Justice were not accurate. The lack of complete and correct cost information means that EPA may not know how much of its budget it is spending on Freedom of Information Act-related costs, and also that it is not meeting the specific statutory reporting requirements.

Agency Explanation: The Office of Environmental Information provided a Corrective Action Plan to the OIG on June 15, 2009, and reminded the OIG on September 9, 2009, that no response was received regarding close-out. On October 1, 2009, the OIG responded via e-mail that the response was not acceptable, and now the Office of Environmental Information is in discussions with the OIG to resolve concerns. The Office of Environmental Information anticipates reaching agreement with the OIG by October 30, 2009.

OIG Follow-up Status: No response

Office of General Counsel**Report No. 09-P-0127, Freedom of Information Act, March 25, 2009**

Summary: EPA procedures did not always ensure that Freedom of Information Act responses were timely or that appeals were processed timely. Some of the annual personnel and cost statistics gathered and provided to the National Freedom of Information Act Officer for inclusion in the annual report to the Department of Justice were not accurate. The lack of complete and correct cost information means that EPA may not know how much of its budget it is spending on Freedom of Information Act-related costs, and also that it is not meeting the specific statutory reporting requirements.

Agency Explanation: The Office of General Counsel has one corrective action on this audit, while the Office of Environmental Information is the lead (see above). The Office of Environmental Information provided a Corrective Action Plan to the OIG on June 15, 2009, that included the Office of General Counsel corrective action. The Office of Environmental Information is in discussions with the OIG to resolve concerns, and agreement with the OIG is anticipated by October 30, 2009.

OIG Follow-up Status: No response

Region 1- Regional Administrator**Report No. 2006-3-00203, Indian Township Tribal Government, FY 2002, September 18, 2006**

Summary: The Tribe invested in nongovernmental investments; had virtually no written investment policies and procedures; did not have an adequate accounting system to record, process, and summarize accounting transactions; did not maintain numerous bank accounts; has a chronic problem of late financial statement audits; maintains manual general ledger and bookkeeping systems decentralized from the tribal books; and did not always have support receipts.

Agency Explanation: Resolution on hold by OIG.

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2006-3-00204, Indian Township Tribal Government, FY 2003, September 18, 2006

Summary: We noted the same issues disclosed in Report No. 2006-3-00203 for FY 2002. We also found that the Tribe had numerous bank accounts with financial institutions, and approximately \$557,000 was uninsured or uncollateralized cash as of September 30, 2003.

Agency Explanation: Resolution on hold by OIG.

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 2006-3-00205, Indian Township Tribal Government, FY 2004, September 19, 2006

Summary: We noted the same issues disclosed in Report Nos. 2006-3-00203 and 2006-3-00204 for FYs 2002 and 2003, respectively. Also, approximately \$592,634 in the Tribe's numerous bank accounts with financial institutions was uninsured or uncollateralized cash as of September 30, 2004. Further, the Tribe did not timely submit quarterly federal reports SF-269 and SF-272 for September 30, 2004.

Agency Explanation: Resolution on hold by OIG.

OIG Follow-up Status: Resolution pending receipt of additional information

Report No. 08-3-0250, Indian Township Tribal Government, FY 2006, September 5, 2008

Summary: The Tribe did not submit financial status reports within required timeframes. For the EPA Partnership Performance grants, the single auditor reported that the Tribe did not have records or formal calculations to demonstrate that it met the matching requirements under these grants. Payroll issues were noted, as well as \$26,134 in unsupported costs. There also were 17 cross-cutting findings. The U.S. Department of Health and Human Services is the oversight agency responsible for audit resolution, but we reported these findings to EPA as they may impact EPA grant funds.

Agency Explanation: A conference call was conducted on September 2, 2009, with the recipient, grants specialist, project officer, regional audit follow-up coordinator, and the certified public accounting firm that conducted the single audit. The agenda for the call was to discuss the EPA-specific audit issues as well as the 11 cross cutting issues noted in the 2007 and 2008 reports. Progress was made to address a few issues during this call. The next call was scheduled for October 7, 2009. The OIG lead for single audits planned to participate in the October call and perhaps can offer the region some assistance on how to facilitate the audit resolution process. Expect resolution by July 2010.

OIG Follow-up Status: No response

Report No. 09-3-0024, Indian Township Tribal Government, FY 2007, November 12, 2008

Summary: There are several EPA grants for which the official time period has expired; however, the Tribe still has funds available under these grants and potential related expenditures. To have access to these funds, the Tribe needs to request time extensions from EPA. The Tribe has drawn funds from various federal programs to pay general fund expenditures, which is not allowable. The single auditors noted a net deficit to federal programs of \$189,961. The Tribe recognized that this condition existed due to misappropriation activities by the former tribal governor.

Agency Explanation: A conference call was conducted on September 2, 2009, with the recipient, grants specialist, project officer, regional audit follow-up coordinator and the certified public accounting firm that conducted the single audit. The agenda for the call was to discuss the EPA-specific audit issues as well as the 11 cross cutting issues noted in the 2007 and 2008 reports. Progress was made to address a few issues during this call. The next call was scheduled for October 7, 2009. The OIG lead for single audits plans to participate in the October call and perhaps can offer the region some assistance on how to facilitate the audit resolution process. Expect resolution by July 2010.

OIG Follow-up Status: No response

Region 3 - Regional Administrator

Report No. 08-4-0156, Canaan Valley Institute, May 19, 2008

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

Agency Explanation: Due to the large amount of questioned costs and findings, the proposed final determination letter has been delayed. Region 3 has an extension from the OIG until October 30, 2009, to submit the proposed final determination letter.

OIG Follow-up Status: No response

Region 8 - Regional Administrator

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

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

Agency Explanation: Due to work on current grants and demands of other projects, the Region was not able to complete this as planned. The Region expects this issued to be resolved by October 31, 2009.

OIG Follow-up Status: No response

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

Summary: In reviewing the report findings, we have determined that they significantly impact the costs the Tribe claimed during 2004. The single auditor findings indicate the Tribe may not be able to support costs claimed under EPA grants. As a result, we are questioning the costs claimed of \$1,158,903.

Agency Explanation: An onsite review was conducted on April 14, 2009. Review of support documents indicated administrative problems consistent with prior work (timekeeping, cost allocation, travel costs, etc.); additional questions on indirect cost recoveries; and problems with information provided by the Tribe's auditors. The Region continues to work with the Tribe and its auditors to determine ultimate cost recovery. Expect resolution by December 31, 2009.

OIG Follow-up Status: No response

Report No. 09-3-0103, Hill City, City of - FY 2006, February 25, 2009

Summary: The City contracted for audit services for the year ended December 31, 2006, on June 19, 2007, but was not prepared to begin the audit until after the 9-month period had passed. The City had a lack of segregation of duties over revenue, expenditure, and payroll functions. The City has not prepared, published, or filed its annual report for the year ended December 31, 2006. The City did not report capital assets on its financial statements as required. Management did not properly present capital assets. The City Finance Office has been unable to complete the year-end recordkeeping and reporting functions. Deficiencies were noted in internal accounting control and recordkeeping, resulting in a diminished assurance that transactions are properly executed and recorded and that assets are properly safeguarded. Many of these conditions had been noted in the past four audits.

Agency Explanation: The Hill City Finance Officer has indicated that she will be able to provide us a response to the findings and the corrective actions taken by October 31, 2009.

OIG Follow-up Status: No response

Region 9 - Regional Administrator**Report No. 09-3-0075, Lone Pine Shoshone Reservation - FY 2006, January 8, 2009**

Summary: The Reservation's cash on hand (\$136,000) exceeded current expenditures. This finding was originally reported in FY 2005 and was not corrected in FY 2006.

Agency Explanation: A conference call with the Reservation was held on August 19, 2009, to resolve the finding on the FY 2006 single audit report. As of September 30, 2009, the Tribe has not provided any documentation to substantiate the \$136,000 in excess cash. The Agency sent an initial warning letter to the Tribe on August 26, 2009, setting September 15, 2009, as the due date to respond and avoid sanctions. Because of the lack of an adequate response, an enforcement letter will be prepared and sent in the next 2 weeks imposing sanctions.

OIG Follow-up Status: No response

**Total reports issued before reporting period for which
no management decision has been made as of September 30, 2009 = 55**

Appendix 3 - Reports with Corrective Action Not Completed

In compliance with reporting requirements in the Inspector General Act, Section 5(a)(3), “Identification of Reports Containing Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed,” and to help EPA managers gain greater awareness of outstanding commitments for action, we have developed a “Compendium of Unimplemented Recommendations.” This separate document provides the information required in Appendix 3 to this Semiannual Report to Congress. This Compendium (available upon request or at <http://www.epa.gov/oig/reports/2010/20091028-10-N-0018.pdf>) is produced semiannually for Agency leadership and Congress based on Agency reports on the status of action taken on OIG recommendations and OIG selective verification of that reported status.

Appendix 4 - OIG Mailing Addresses and Telephone Numbers

Headquarters

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

Offices

Atlanta

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

Boston

U.S. Environmental Protection Agency
Office of Inspector General
One Congress Street, Suite 1100
Boston, MA 02114-2023
Audit/Evaluation: (617) 918-1470
Investigations: (617) 918-1468

Chicago

U.S. Environmental Protection Agency
Office of Inspector General
77 West Jackson Boulevard
13th Floor (1A-13J)
Chicago, IL 60604
Audit/Evaluation: (312) 353-2486
Investigations: (312) 353-2507

Cincinnati

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

Dallas

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

Denver

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

Kansas City

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

New York

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

Philadelphia

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

Research Triangle Park

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

San Francisco

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

Seattle

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

Winchester

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

It's your money
It's your environment

Report fraud, waste or abuse

e-mail: OIG_Hotline@epa.gov

write: EPA Inspector General Hotline 2491T
1200 Pennsylvania Avenue NW
Washington DC 20460

fax: 202-566-2549

phone: 1-888-546-8740



www.epa.gov/oig/hotline/how2file.htm

