



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
**REGION 6**  
 1445 ROSS AVENUE, SUITE 1200  
 DALLAS, TEXAS 75202 – 2733

Office of the Regional Administrator

November 19, 2013

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General - Final Report No.13-4-0296 "Labor Charging Practices at the New Mexico Environment Department" dated June 17, 2013

**FROM:** Samuel Coleman, P.E. *Samuel Coleman*  
 Deputy Regional Administrator

**TO:** Robert K. Adachi  
 Director of Forensic Audits, Office of the Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. The following is a summary of the Region's overall position, along with its position on each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates.

**Agency's Overall Position**

Region 6 generally agrees with the Office of Inspector General's findings and recommendations of the subject audit. Based on the Recipient's submission of additional documentation and the negotiated corrective actions identified below, Region 6, in consultation with the Office of Grants and Debarment, completed some Corrective Actions and others are pending. The agency is acquiring additional labor cost accounting information on regular basis from the NMED and will take a layered approach to acquiring complete support for the labor costs indicated.

**Response To Recommendations Table**

No.	Recommendation	High-Level Intended Correction Action(s)	Estimated Completion
1.	Disallow and recover unsupported labor costs of \$298,159 from AQB and \$2,974,318 from DWB, unless NMED can provide support that complies with 2CFR Part 225, Appendix B, Section 8.h.	The Region has obtained or will obtain, signed certifications provided by NMED employees who have worked 100 percent on a single EPA grant for specific periods of time which materially comply with 2 CFR Part 225, Appendix B, Item 8.h.(3).	2 <sup>nd</sup> Quarter 2014  Thirty-one (31) certifications have been received to date and associated costs will be determined.
		For employees whose time was split between EPA grants and other work,	1 <sup>st</sup> Quarter 2015

		<p>contemporaneous Time Tracking Worksheets have been identified by NMED and the Region has determined that these Time Tracking Worksheets are equivalent to the personnel activity reports required by 2 CFR Part 225, Appendix B, Item 8.h.(4) and (5). A sample of NMED staff will be interviewed by phone to confirm actual hour were recorded.</p>	
		<p>For other employees, EPA will work with NMED to identify quantifiable measures of employee effort related to the grants to determine whether EPA (as NMED's cognizant agency) will accept a "substitute" labor cost allocation system as authorized by 2 CFR Part 225, Appendix B, Item 8.h.(6). Any substitute system will be tied to verifiable amounts of compensation relating to each employee's contributions towards achieving specific outputs described in NMED's contemporaneous performance reports.</p>	1 <sup>st</sup> Quarter 2015
		<p>EPA will continue to work with NMED to document labor costs and will disallow and recover costs if NMED is unable to provide records which materially comply with 2 CFR Part 225, Appendix B, Item 8.h. From the three methods above, EPA will discern the allowable labor costs of those questioned by the IG. If questioned costs cannot be supported by NMED, EPA will recover the cost. A summary of EPA determinations will be provided to the IG.</p>	1 <sup>st</sup> Quarter 2015
2.	<p>Ensure that NMED does not claim unsupported cost of \$486,305 for the period of October 1, 2011, to April 13, 2012, for grant F00620311, unless NMED can</p>	<p>Same as #1</p>	1 <sup>st</sup> Quarter 2015

	provide support that complies with 2 CFR 225, Appendix B, Section 8.h.		
3.	Identify and recover any unsupported cost from AQB and DWB administered grants, which are not covered in our cost-impact determination.	Region, in consultation with OGD, will review a sample of open and closed grants within the record retention period. If any unsupported labor costs are identified, steps will be followed same as #1.	1 <sup>st</sup> Quarter 2015
4.	Ensure that labor charging practices at any of the nine NMED bureaus that have EPA grants comply with federal requirements.	Effective July 2013, Region 6 placed a unique term and condition in grant awards to NMED Bureaus that were not covered by the OIG's audit. [OIG had already found substantive compliance in the audited Bureaus as of April 2013.] The term and condition required the Bureaus to notify EPA in advance of any payment for personnel compensation, provide evidence that labor charging practices comply with federal requirements, and source documentation will support the costs.	Complete. Documentation submitted by NMED and reviewed by EPA is compliant with the term and condition.
		NMED established a new time and reporting policy, applicable to all employees whose positions are funded in whole or in part by federal funds or whose positions are used as state match to support federally funded awards. Region 6 and the Office of Grants and Debarment (OGD) reviewed the policy before it was finalized.	Complete. Policy effective September 14, 2013.
		Region 6 has drafted a Financial Review Protocol which will enable Project Officers to further assess the grantees' financial management systems.	Implementation of Protocol will begin 3 <sup>rd</sup> Quarter 2014 thru 1 <sup>st</sup> Quarter 2015. Draft attached.
		Region 6 will conduct a site visit, with support from OGD, to ensure implementation of proper labor	1 <sup>st</sup> Quarter 2015

		charging policy and practices across all nine NMED bureaus.	
5.	Disallow and recover unsupported SWQB labor costs of \$2,733,798, unless NMED can provide support that complies with federal requirements.	Same as #1	1 <sup>st</sup> Quarter 2015

If you have any questions regarding this response, please contact Missy Milbeck, Comptroller at (214) 665-6540 or Donna Miller, Grants Management Officer at (214) 665-8093.

cc: Ms. Lela Wong, Office of the Inspector General  
 Mr. Howard Corcoran, Office of Grants and Debarment

DATE

MEMORANDUM

SUBJECT: EPA Region 6 Programmatic Financial Review Protocol for EPA Assistance Agreements

FROM: Donna R. Miller  
Grants Management Officer  
Grant Programs Section (6MD-CG)

TO: Region 6 Grant Managers, Supervisors and Project Officers

Programmatic Baseline Monitoring is a tool used by EPA Project Officers to assess the assistance agreement's financial status, e.g., evaluate funds available to project progress and end date; and ensure that EPA dollars are being used responsibly and for the purpose intended. The protocol identified in this memorandum will act as a guide to assist Region 6 Program Offices further assess financial status by conducting transaction testing of grantee drawdowns to ensure that funds are being spent appropriately for the program and within the scope of the workplan. This protocol should be used in conjunction with the programmatic advance monitoring reviews but is not mandatory at this time.

FINANCIAL REVIEW PROTOCOL:

1. Project Officers should select appropriate number of draws from across the grantee's open grants that have been made in the current fiscal year. Give the recipient an advanced request for copies of all supporting documentation for each draw you have selected, including, but not limited to the following:
  - **Personnel/Payroll** - Payroll Ledgers/Journals, Activity Reports, Timesheets
  - **Travel** - Travel Authorizations, Travel Vouchers, Trip Reports, Reimbursement Requests, Receipts for Expenses, Proof of Payment.
  - **Procurements or Subawards** - Provide any written contracts, agreements, purchase authorizations or purchase orders for goods, services, supplies or construction (exclude any agreements for materials or supplies included in your indirect costs). Also provide any subaward documents, which are legal instruments that support the performance of any portion of the grant project or program. Include any Invoices, Receipts, Payment Authorizations or Proof of Payment for the contract, agreement or subaward.
  - **Other or Additional Documentation** - Any additional support documentation for expenditures that the identified draw funded

During the on/off-site visit, review the supporting documentation. Document the results of the review (success and findings) in the Required Format for Writing a Programmatic Review Report for On-Site and Off-Site Evaluative Reviews All advanced review reports should be included in the

Grantee Compliance & Recipient Activity Summary Database. Include in your report the following note:

The above programmatic financial review was conducted separately from and should not be considered in lieu of any potential Single Audit or Administrative Review that may be conducted by EPA's Grants Management Office. The programmatic financial review is not a review of grantee policies and/or processes. Expenses were reviewed for allowability within the scope of the program and the approved workplan, and to confirm that invoices reconciled to the selected draws. A review of labor charges was conducted to ensure billing was based upon actual activities performed and not upon budget allocations in accordance with the regulatory requirements in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments

After requesting and receiving copies of the source documents to support the selected draws from the Recipient, the Project Officer should evaluate the documentation. If you discover findings, examples described below, notify the Grants Management Office and provide a copy of the Programmatic Review Report and copies of the major supporting documents provided by the recipient.

### **Examples of Potential Findings**

#### **Payroll/Timekeeping Issues**

**Nature of Finding:** Lack of, or inadequate, documentation to support labor charges to EPA grant(s) as direct charges.

**Example:** Not having signed timesheets.

Project Officers may want to ask the following questions:

- Does the organization require all employees to fill out timesheets at least monthly that coincide with one or more pay periods?
- Are timesheets required to be signed by the employee, supervisor, or both?
- Does the organization's timesheets require employees to record actual hours worked on each project or grant?

#### **Travel/Training Costs**

**Nature of Finding:** Claimed costs for travel/training that are not addressed in the grant budget or the approved scope of work for the grant project.

**Example:** Incomplete or missing travel records such as authorizations or receipts for hotels, air fare, etc.