



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

New Procedures Aided Region 5 in Reducing Unliquidated Obligations

Report No. 13-P-0145

February 13, 2013



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Abbreviations

CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal year
IA	Interagency agreement
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMDS	Resources Management Directives System
ULO	Unliquidated obligation

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At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine whether Region 5 is timely liquidating grant, interagency agreement, and contract obligations.

Prior OIG reports have identified concerns with obligations not being liquidated when no longer needed. EPA developed procedures to strengthen internal controls over unliquidated obligations. In fiscal year 2011, the Office of the Chief Financial Officer instituted a database to improve the consistency in reviewing and managing ULOs. Our review focused on whether the corrective actions taken were effective.

This report addresses the following EPA Goal or Cross-Cutting Strategy:

- *Strengthening EPA's workforce and capabilities*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2013/20130213-13-P-0145.pdf

New Procedures Aided Region 5 in Reducing Unliquidated Obligations

What We Found

At the beginning of FY 2011, EPA's system for reviewing ULOs indicated that Region 5 had over \$1.7 billion in grant, contract, and interagency agreement ULOs. During FY 2011, Region 5 liquidated over \$1 billion in ULOs, leaving about \$645 million in ULOs remaining at the end of FY 2011. Our review found an additional \$402,445 that, in our opinion, could have been deobligated during FY 2011. Region 5 deobligated the funds in FY 2012.

Several factors impacted Region 5's ability to liquidate funds, including obtaining the documentation necessary to close out funding agreements. For three funding agreements, valued at \$616,976, delays in obtaining closeout documentation delayed deobligation of funds by as many as 10 years. While two contracts were deobligated, Region 5 is still working to obtain documentation from the other recipient. Obligations can also remain unliquidated for many years because of funding recipient delays in starting or completing projects. Some funding agreements in our sample had been inactive for more than 4 years. However, in each case, Region 5 provided evidence that the funds were still needed.

Recommendations and Planned Agency Corrective Actions

We recommend that the EPA Region 5 Administrator take action to deobligate the funds for the remaining closed grant (Town of Scott). We also recommend that the Chief Financial Officer and the Assistant Administrator for Administration and Resources Management address issues related to funding agreements where the obligation is inactive or open with no activity for more than 180 days. Region 5 took action to close the Town of Scott grant in November 2012. EPA agreed with the other recommendations.

Noteworthy Achievements

Region 5 deobligated over \$1 billion in grants, contracts, and interagency agreements in FY 2011. The region took action in FY 2012 to deobligate the funds from agreements where the grant period had expired, with the exception of one agreement where EPA is still working with the recipient to obtain documentation to close the grant. During the course of our audit, Region 5 also took action to remind staff of the procedures for elevating issues preventing deobligation of funding agreements to managers' attention.

The Office of the Chief Financial Officer implemented the ULO database in FY 2011 to improve consistency in reviewing and managing ULOs. The database provides the capability to proactively monitor ULOs and eliminates the use of manual spreadsheet reports. During interviews, users of the database stated that it was an excellent replacement for the previous review process.




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

THE INSPECTOR GENERAL

February 13, 2013

MEMORANDUM

SUBJECT: New Procedures Aided Region 5 in Reducing Unliquidated Obligations
Report No. 13-P-0145

FROM: Arthur A. Elkins, Jr. 

TO: Susan Hedman
Regional Administrator, Region 5

Barbara J. Bennett
Chief Financial Officer

Craig Hooks
Assistant Administrator
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

Action Required

In responding to the draft report, the Agency provided a corrective action plan for addressing the recommendations with milestone dates. Therefore, a response to the final report is not required. The Agency should track corrective actions not implemented in the Management Audit Tracking System. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist, assistant inspector general for audit, at (202) 566-0899 or heist.melissa@epa.gov; or Janet Kasper, director, Contracts and Assistance Agreements Audits, at (312) 886-3059 or kasper.janet@epa.gov.

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Chapter 1

Introduction

Purpose

An unliquidated obligation is described as an obligation or liability that has not been expended or liquidated. In fiscal year 2011, the U.S Environmental Protection Agency Office of the Chief Financial Officer released new policies and procedures and launched a new database to improve and simplify the ULO review process. The EPA Office of Inspector General conducted this audit to determine if Region 5 is timely liquidating grant, interagency agreement, and contract obligations. Region 5 was selected for review because of its large volume of unliquidated obligations and the large number of grants with no financial activity for more than 18 months.

Background

The Federal Managers' Financial Integrity Act of 1982 establishes overall requirements with regard to internal control and requires the agency head to annually evaluate and report on the controls and financial systems that protect the integrity of federal programs. Internal controls provide reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, implements FMFIA. This circular requires programs to operate and use resources "consistent with agency missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement."

EPA's ULOs and management of grants that are eligible for closeout have caused the OIG, U.S. Government Accountability Office, and Congress to raise concerns. Prior OIG audits identified ULOs as an area where EPA can improve its ability to identify and deobligate unneeded funds and improve its OMB Circular A-123 ULO review process. Additionally, Congress has rescinded millions of dollars of EPA appropriations. These rescissions have forced EPA to take a closer look at its ULOs and the close out of its grants, contracts, and IAs.

To implement FMFIA and OMB Circular A-123 requirements and to address OIGs concerns, EPA developed several policies and procedures:

- EPA's Management Integrity Program – *FY 2011 Annual Guidance, Internal Controls Over Financial Activities*, requires all Assistant Administrators and Regional Administrators to develop plans for staffing the A-123 ULO reviews and training the reviewers. By October 8, 2011,

Assistant and Regional Administrators were required to submit a separate year-end ULO certification to verify that unneeded funds were deobligated by the end of FY 2011. The certification must be supported by a review of the ULO desktop tool.

- OCFO Policy Procedure RMDS 2520-03, *Standard Operating Procedures: Deobligating Unliquidated Obligations*, provides guidance for the deobligation of grants, contracts, and IAs. It defines a valid obligation as one for which appropriated funds are still available and an actual need still exists within the life of that appropriation. An inactive obligation is an obligation where there has been no activity for 6 months (180 days).
- OCFO Policy RMDS 2520-03-P1, *Responsibilities for Reviewing Unliquidated Obligations*, establishes procedures for managing ULOs under Agency funds-out IAs; assistance agreements including grants, cooperative agreements, and fellowships; contracts; travel; and miscellaneous items. This policy requires all responsible parties in EPA regions to conduct complete periodic but at least annual reviews of all current and prior year ULOs to ensure that all recorded obligations are still valid and properly documented.

EPA's management of ULOs was one of the reasons the OIG identified efficient use of available funds as an Agency weakness. In an April 2012 memorandum to the Chief Financial Officer, the OIG recommended that the efficient use of funds continue as an Agency-level internal control weakness until the ULO policies and procedures EPA developed are effectively implemented and assessed. Sound funds management is critically important, particularly as budgetary pressures continue to increase. When funds are not deobligated, those funds cannot be used on other environmental projects and are more susceptible to fraud, waste, and mismanagement.

Noteworthy Achievements

Region 5 deobligated over \$1 billion in grants, contracts, and IAs in FY 2011. The region took action in FY 2012 to deobligate the funds from agreements where the grant period had expired, with the exception of one agreement where EPA is still working with the recipient to obtain documentation to close the grant. During the course of our audit, Region 5 also took action to remind staff of the procedures for elevating issues preventing deobligation of funding agreements to managers' attention.

The Office of the Chief Financial Officer implemented the ULO desktop tool in FY 2011 to improve consistency in reviewing and managing ULOs. The ULO tool provides the capability to proactively monitor ULOs and eliminates the use of manual spreadsheet reports. It includes visual review indicators, the history of the

review, results of staff review, and the ability to export data. During interviews, users of the ULO tool stated that it was an excellent replacement for the previous review process and improved monitoring and tracking capabilities.

Scope and Methodology

We conducted this performance audit from February 2012 to November 2012 in accordance with generally accepted government auditing standards issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To determine if Region 5 is timely liquidating grant, IA, and contract obligations, we obtained and verified the FY 2011 universe of Region 5 grant, IA, and contract ULOs using the ULO tool. We judgmentally selected 27 samples from the universe. A judgmental sample is a nonrandom sample selected based on the opinion of the auditors. The sampled ULOs included at least one grant, IA, and/or contract from each reason code with an obligation of more than \$0 at the end of FY 2011. The reason code describes the result of the staff's reviews of the ULO, including whether the obligation was still valid or should be deobligated.

We interviewed Region 5 project officers, contract officers, and grant specialists with oversight responsibilities for the 27 samples to discuss how they review ULOs. We compared their processes to EPA policy. We reviewed files for each sample to identify why the ULO was not deobligated and to verify that EPA had adequate support for not deobligating the funds. EPA managers in Region 5, the Headquarters Interagency Agreement Shared Service Center, and the Region 10 Grants and Interagency Agreements Unit were interviewed to discuss root causes for audit findings. The Shared Service Centers in Region 10 and headquarters are responsible for administering IAs nationwide, including Region 5.

We obtained grant, IA, and contract information from several EPA data systems:

- Integrated Grants Management System
- Financial Data Warehouse
- Compass Data Warehouse
- FY 2011 ULO desktop tool

The information systems were adequate to support our analysis of ULOs and each of our conclusions was reinforced by corroborating information found in the files.

We evaluated Region 5's internal controls regarding ULOs. We determined that the internal controls were sufficient to reasonably assure effective and efficient

operations, reliable financial reporting, and compliance with applicable laws and regulations.

We reviewed guidance documents and previous U.S. Government Accountability Office and EPA OIG reports relevant to our work. We also reviewed FY 2011 FMFIA and A-123 assurance letters from EPA Region 5, Region 10, OCFO, and the Office of Administration and Resources Management. The OCFO's assurance letter noted that there were no deficiencies or exceptions found during its FY 2011 test of internal controls regarding ULOs. However, Region 5, Region 10, and the Office of Administration and Resources Management all noted deficiencies or issues related to ULOs. These deficiencies included:

- Inability to deobligate funds which were under the control of the Office of Regional Counsel, Region 5
- Lack of followup on deobligation requests
- Lack of supporting documentation for justification codes selected in the ULO tool
- Inclusion of some closed and deobligated funds in the ULO tool

Prior Audit Coverage

Prior EPA OIG reports identified ULOs as an area where EPA can improve its ability to identify and deobligate unneeded funds and improve its internal controls. From FY 2008 through FY 2011, the OIG issued six reports that addressed ULOs:

- Report No. 11-1-0069, *EPA Did Not Fully Comply With Guidance Regarding OMB Circular A-123 Unliquidated Obligation Reviews*, January 19, 2011
- Report No. 11-P-0170, *EPA Region 3 Reduced Unliquidated Obligations Under Water Program Assistance Agreements*, March 15, 2011
- Report No. 11-P-0228, *EPA Should Reduce Unliquidated Obligations Under Expense Reimbursement Grants*, May 16, 2011
- 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 No. 09-P-0086, *EPA Should Strengthen Internal Controls over Interagency Agreement Unliquidated Obligations*, January 26, 2009
- Report No. 08-P-0265, *EPA Should Continue Efforts to Reduce Unliquidated Obligations in Brownfields Pilot Grants*, September 16, 2008

Chapter 2

Region 5 Reduced Unliquidated Obligations by Over \$1 Billion

At the beginning of FY 2011, the ULO tool indicated that Region 5 had over \$1.7 billion in grants, contracts, and interagency agreement ULOs. Of the \$1.7 billion, over \$1 billion in ULOs was liquidated during FY 2011, leaving about \$645 million in ULOs remaining at the end of FY 2011. A judgmental sample found an additional \$402,445 in expired obligations in FY 2011 that the OIG believes could have been deobligated. EPA policy requires annual reviews of ULOs and requires resource officials to certify that appropriate deobligations have been made on regionally administered contracts, grants, and IAs. Regional management stated that our sample included unusual circumstances or anomalies. Region 5 took action during FY 2012 to liquidate all of the sample transactions identified in this chapter and to remind staff of the process for elevating issues relating to the deobligation of funds to managers' attention. When funds on expired projects are not deobligated, those funds cannot be used on other environmental projects.

EPA Policies Require ULO Reviews

EPA Policy RMDS 2520-03-P1, *Responsibilities for Reviewing Unliquidated Obligations*, effective October 1, 2010, states that the regional senior resource official is responsible for ensuring that staff review all ULOs administered by their region. The senior resource official must certify that "appropriate deobligation has been made on Regional travel and small purchases, as well as regionally-administered contracts, grants, and IAs."

EPA Policy RMDS 2520-03, *Deobligating Unliquidated Obligations*, discusses reviews of unliquidated obligations that are required by law. EPA must annually ensure that all recorded obligations are still valid and properly documented.

EPA Could Have Deobligated Additional Funds on Expired Projects

In FY 2011, Region 5 deobligated approximately \$45 million in contract, grant, and IA obligations. We found an additional \$402,445 in expired obligations, less than 1 percent of total deobligations, which the OIG believes Region 5 could have deobligated. During its FY 2011 review of obligations, Region 5 did not deobligate 3 of the 27 grants, IAs, and contracts in our sample even though the funds were no longer needed (table 1). Region 5 could have deobligated the funds from the 3 agreements because the projects had expired between 1 to 4 years prior to the end of FY 2011. EPA did deobligate the funds in FY 2012.

Table 1: Details of sampled grant, IA, and contract that have expired

Project name	Type	Project period end date	Unliquidated amount as of 9/30/2011	Amount as of July 2012
Ecorse MI Grant No. 96580201	Grant	09/30/2007	\$309,192.75	\$0
US Army Corps of Engineers IA No. 94758001	IA	3/31/2010	59,249.93	0
CH2M Hill Contract No. 68W60025	Contract	09/30/2007	34,002.40	0
Total			\$402,445.08	\$0

Source: OIG analysis.

The following provides details on the funding agreements that should have been deobligated in FY 2011:

- The City of Ecorse, Michigan, grant expired on September 30, 2007, with \$309,192.75 remaining, and it could have been closed and deobligated. Based on Office of Regional Counsel advice, Region 5 suspended the award but did not deobligate the grant because there was a pending investigation. Under 40 CFR § 30.72(a)(1), the closeout of an award does not affect the right of EPA to disallow costs and recover funds.

The grant's original project period began October 1, 2005. As early as June 30, 2006, EPA found that the grantee had accomplished minimal work and failed to submit progress reports for five consecutive quarters, beginning with the quarter ending June 30, 2006. EPA took action to prevent the recipient from drawing down funds. On October 15, 2009 (2 years after the project period ended), the Office of Regional Counsel informed the grant specialist to wait to close the grant until further notice. In its FY 2011 Assurance Letter, Attachment 3, Region 5 identified the Ecorse grant as a remaining corrective action because it was still in dispute and on hold by legal counsel. Based on 40 CFR § 30.62, which in part refers to enforcement remedies for noncompliance with grant awards, Region 5 management believes that its legal counsel's recommendation to suspend the award pending the results of the investigation warranted deference. After receiving clearance from legal counsel, EPA deobligated the remaining funds on July 18, 2012.

- The U.S Army Corps of Engineers IA expired on March 31, 2010. However, it took over a year to close and deobligate the funds for this IA. According to Region 10's Grants and Interagency Agreement unit, all work performed under this IA or under any associated contracts had been successfully completed. On March 17, 2011, EPA's Cincinnati Finance Center indicated that the IA balance could not be reconciled due to a

discrepancy. The finance center stated that closeout of the IA should not proceed until the balance was reconciled. On November 29, 2011, the IA was closed and the remaining \$52,458.66 was deobligated.

- The project period for the CH2M Hill contract ended September 30, 2007, with \$34,002 remaining. We did not observe any requests for closeout documents or attempts to deobligate the funds until almost 4 years after the project period ended. On September 26, 2011, an amendment was submitted to the finance center to deobligate the remaining funds. The finance center partially deobligated the funds. The previous contracting officer stated that he forgot to follow up to ensure that all of the remaining funds were deobligated. On February 27, 2012, the current contracting officer requested the contractor's release form and final invoices. EPA received the contractor's release form dated March 2, 2012, and final closeout voucher dated March 29, 2012. The remaining funds were deobligated on May 17, 2012. EPA should have requested the contractor's release sooner and followed up when only a portion of the funds was deobligated.

Closeout Difficulties Were Not Elevated for Effective Resolution

Region 5 staff did not always take appropriate action to ensure that expired projects were deobligated. We were told that our sample included unusual circumstances or anomalies. During the course of our audit, Region 5 issued an e-mail to its staff members which reminded them of the grant and contract closeout procedures and instructed them to elevate closeout issues to the appropriate manager for assistance. Because the Agency has deobligated the funds for the grant, IA, and contract mentioned in this chapter and has instructed Region 5 staff to elevate closeout documentation issues to its managers, Region 5's actions have addressed the issues in this chapter. Therefore, we have no further recommendations.

Chapter 3

Overall Closeout Goals Met But Documentation Delayed Certain Deobligations

Overall, Region 5 is meeting Agency grant closeout goals. Of the judgmental sample of 27 obligations reviewed during the audit, Region 5 did not take action to close out 1 grant and 2 contracts because documentation needed to close out the obligations had not been received. A recipient did not timely respond to documentation requests and staff did not elevate the issues to management. Grants should be closed when all administrative action and work is done. Contract closeout occurs when there is evidence of final payment and physical completion. When funds on expired projects are not deobligated, those funds cannot be redirected to other environmental projects.

Federal Regulations Encourage Timely Closeouts

As discussed in 40 CFR § 31.50, a federal agency is to close out a grant award “when it determines that all applicable administrative actions and all required work of the grant has been completed.” It also states that within 90 days after the expiration or termination of the grant, the grantee must submit all required financial, performance, and other reports.

Likewise, Federal Acquisition Regulation Subpart 4.804 states that contract closeout occurs upon receipt of evidence of final payment and evidence of physical completion. The contract task orders mentioned in this chapter are indefinite delivery, indefinite quantity contracts and cost-plus-fixed-fee contracts.¹ To allow for completion of indirect cost rate audits, the regulation states that contracts should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.

EPA Did Not Always Take Action on Delayed Closeouts

In FY 2011, Region 5 deobligated 90 percent of the grants that closed that year. Region 5 did not take action during FY 2011 to close out 1 grant and 2 contracts of the 27 obligations reviewed during the audit. Region 5 was still awaiting closeout documentation and allowed these projects to remain open for up to 10 years after project periods ended. Region 5 has since deobligated both of the

¹ An indefinite delivery, indefinite quantity contract “provides for an indefinite quantity, within stated limits, of supplies or services during a fixed period.” In addition, “[t]he contract must require the Government to order and the contractor to furnish at least a stated minimum quantity of supplies or services.” FAR 16.504(a)(1). “A cost-plus-fixed-fee contract is a cost reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract...but may be adjusted as a result of changes in the work to be performed under the contract.” FAR 16.306(a).

contracts, but the grant remains open. Table 2 presents details of the sampled grant and contracts that were originally not closed out.

Table 2: Details of sampled grant and contracts that needed closeout

Project name	Type	Project period end date	Unliquidated amount as of 09/30/2011	Amount as of July 2012
Town of Scott, Grant No. XP00E27701	Grant	10/31/2010	\$35,600.00	\$35,600.00
Weston TO #3 Contract No. GS10F0117	Contract	09/30/2006	108,097.72	0
Ecology and Environment Contract No. 68W60011	Contract	12/17/2000	473,278.06	0
Total			\$616,975.78	\$35,600.00

Source: OIG analysis.

The following provides details on the grant and contracts that were not closed out because required documents were not available:

- The Town of Scott grant project period ended on October 31, 2010, at which time Region 5 should have initiated closeout procedures. During FY 2011 and 2012, Region 5 communicated several times with the grantee to request documents to officially close the grant. The project officer stated that the grantee stopped communicating with them and no longer answered phone calls which made it difficult to close out and deobligate any remaining funds. EPA extended the grant until July 31, 2012, and the grantee has until November 1, 2012, to submit invoices to support eligible costs.
- The Weston contract should have been closed out and funds deobligated since the project period ended September 30, 2006, over 6 years ago. A review of the contracting officer files showed no project activity or requests for closeout documents for more than 4 years. The project officer had retired and the Agency could not locate the project officer's file. The Agency stated that the release of claims (required for closeout) was received and the task order was deobligated on October 4, 2011. EPA should have started the closeout process and obtained the release of claims when the project period ended.
- The Ecology and Environment contract project period ended December 17, 2000, with \$473,278.06 remaining, and closeout procedures should have been initiated at that time. The contracting officer indicated that these were oil cleanup funds. According to Region 5, the contracting manager made the decision not to deobligate the funds because she felt

that it was better to hold onto the Oil Spill Reimbursable Authority funds to pay the final invoice. In March and April 2012, EPA made final payment to the contractor which resulted in a \$0 available balance and closed the contract.

Required Closeout Documents Were Not Obtained and Funds Could Not Be Deobligated

For the samples under review, projects were not closed out timely because required closeout documentation was not obtained. Region 5 has a procedure for elevating concerns about obtaining closeout documentation for grants. Region 5's process calls for sending a letter requesting closeout documentation when the grant expires and additional letters when requested documentation is not received. This process was not followed for the Town of Scott project. On September 11, 2012, Region 5 sent an e-mail to its grants specialists reminding them of the region's closeout procedures and that they should timely elevate issues when there are delays in obtaining necessary closeout documents.

In the case of the Weston contract, there was no evidence that documentation needed to close out the contract was requested for 4 years. Promptly elevating closeout delays to management may have resolved the delays more efficiently. On September 21, 2012, Region 5 management sent an e-mail to contracting staff reminding them of the procedures for closing contracts and stating that if there are concerns, they should be elevated. Region 5's corrective action addresses the issues relating to the closeout of contracts.

Recommendation

We recommend that the Regional Administrator, Region 5:

1. Close out the Town of Scott grant and deobligate any funds remaining after the required documents are obtained.

Agency Comments and OIG Evaluation

Region 5 took action to address the recommendation. EPA disbursed the remaining funds to the recipient on November 5, 2012, and closed the grant. EPA's actions addressed the recommendation.

Chapter 4

Recipients Can Take Many Years to Use Funds

Grant and IA recipient delays in starting projects and requesting reimbursement create the appearance that funds are not needed. EPA policy defines inactive obligations as those in which there has been no activity for six months (180 days) or more. In our sample, three of 27 obligations were inactive even though the performance period for the grant or IA had not expired. Some of the obligations have been inactive for more than 4 years. When funds are not used, the Agency's anticipated environmental outcomes are delayed or may become unattainable.

Inactive Means No Activity for 6 Months or More

EPA Policy Number 2520-03 defines inactive obligations as those in which there has been no activity for 6 months (180 days) or more.

For grants, EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, states that during programmatic baseline monitoring, areas to be reviewed may include "whether expended and remaining funds are reasonable."

EPA has taken some action to address the issue of the lack of drawdowns in recent years:

- EPA developed a timely payment term and condition to address grant recipients that have a history of accumulating ULOs without adequate justification. This term and condition may help reduce grant ULOs in the future.
- EPA's Office of Wastewater Management issued the *Management Plan for the Timely Award and Completion of Special Appropriations Act Project Grants*, effective October 1, 2011, to facilitate the timely award and completion of congressional earmark grants. According to the guidance, recipients with no financial activity for 5 months must submit a written explanation of the reason for the inactivity.
- The purpose of the EPA's Grants Policy Issuance 12-06, *Timely Obligation, Award and Expenditure of EPA Grant Funds*, effective October 1, 2012, is to ensure the timely obligation, award, and expenditure of EPA grant funds. The policy states that regional program offices may not approve grants where it is anticipated that drawdown of a substantial portion of federal funds will be delayed until the end of the project period, without the approval of the responsible National Program Manager.

EPA's recent actions may help to prevent lack of drawdowns in the future, but extra attention by EPA staff will still be required.

Obligations Can Linger for Years With No Drawdowns

A few Region 5 grants were open for years with no drawdowns. In 3 of 27 obligations reviewed, we found that recipients of two grants and an IA had not drawn down funds for about 4 years (table 3). EPA told us that funds were still needed for each of these cases.

Table 3: Details of sampled grants and IA not drawing down funds

Project name	Type	Award Date	Unliquidated amount as of 9/30/2011	Amount as of August 2012
Rockford Grant No. BF00E45801	Grant	03/18/2008	\$1,700,000	\$1,501,829
Ohio EPA Grant No. XP00E59101	Grant	12/21/2008	2,106,925	2,106,925
Indian Health Service IA No. 94817901	IA	9/27/2007	81,400	12,173
Total			\$3,888,325	\$3,620,927

Source: OIG analysis.

The following describes grants and an IA with long periods of inactivity from Table 3 above:

- Since the Rockford Brownfield grant was awarded 4 years ago, there was one drawdown in July 2012. After the initial project period expired January 31, 2011, with no activity, Region 5 increased the initial award amount by \$500,000. According to Region 5 staff, under this type of grant funds are not disbursed until after the loan review process is completed and eligible costs are incurred. The project officer explained that delays occurred after Chicago lost its 2016 Olympics bid and slated projects fell through. The project officer also stated that EPA and the state have reviewed the cleanup plans and ground breaking is expected to start in May 2012. Despite assurances that this project is now on track toward completion, when funds remain idle it appears that they are not needed.
- The Ohio Environmental Protection Agency has not drawn down any funds since the original award on December 21, 2008. During a 2010 on-site review, Region 5 found that while the Ohio Environmental Protection Agency had conducted work, there were no requests for payment. Region 5 recommended that the Ohio Environmental Protection Agency submit requests for payments semiannually. EPA files did not include a response from the Ohio Environmental Protection Agency to the report

issued in March 2011. Region 5 staff explained that special appropriations grants present challenges.

- Region 5 did not take effective action when the Indian Health Service did not draw down funds for more than 4 years after the project period began October 1, 2007. The Indian Health Service did not draw down funds from October 10, 2007, to January 26, 2012. The project period for this IA expired at the end of 2010. It was amended June 1, 2011, to provide more time and the project period was extended until December 31, 2011.

ULO Database Reports Could Be Improved

Region 5 was required to review over 3,000 lines of ULOs in the FY 2011 ULO tool. The ULO tool does not highlight grants, IAs, and contracts which are inactive and have had no activity for 180 days. EPA began to use the ULO tool during FY 2011, and it was the first time such an extensive review of obligations was required. Previously, ULO reviews only included obligations inactive for 180 days or more. Management explained that it did not seem efficient to review every obligation and that it was easier to make mistakes than it was in the past.

We believe that obligations which have had no activity for long periods of time need to be distinguished from other obligations so that there is more attention on the older ULOs. If the ULO tool reports would highlight the older obligations, it would focus management's attention on these obligations. Even though Agency policy states that an obligation is considered inactive after 180 days, Region 5 expressed concern that given the nature of the two loan programs (Brownfields and State Revolving Loan programs), a longer "no activity trigger" may be appropriate. At 180 days, it is likely that all the grants would trigger greater attention, thus diverting management attention from other instances where actual problems may exist.

Recommendations

We recommend that the Chief Financial Officer:

2. Revise the ULO desktop tool to separately identify obligations that have been inactive for 180 days or more.

We recommend that the Assistant Administrator for Administration and Resources Management:

3. Assess the effectiveness of the Office of Water practice of requiring written explanations from recipients when funds are not drawn for 5 months and whether it should be applied to other types of financial agreements.

Agency Comments and OIG Evaluation

EPA agreed with both recommendations. By January 31, 2013, OCFO will restore the functionality of the ULO desktop tool that highlights obligations that have been inactive for 180 days. The Office of Grants and Debarment will review the effectiveness of the Office of Water's practice of requiring written explanations from recipients to determine whether the practice should be expanded to other assistance agreements and interagency agreements. Based on the results of the review, a recommendation will be made to the Grants Management Council. Based on the council's response to the recommendation, the Office of Grants and Debarment will make the necessary changes to its policies effective October 1, 2013. The Agency actions, when implemented, should address the recommendations.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	10	Close out the Town of Scott grant and deobligate any funds remaining after the required documents are obtained.	C	Regional Administrator, Region 5	11/05/2012		
2	13	Revise the ULO desktop tool to separately identify obligations that have been inactive for 180 days or more.	O	Chief Financial Officer	01/31/2013		
3	13	Assess the effectiveness of Office of Water practice of requiring written explanations from recipients when funds are not drawn for 5 months and whether it should be applied to other types of financial agreements.	O	Office of Administration and Resources Management	10/01/2013		

¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U= recommendation is unresolved with resolution efforts in progress

Agency Comments to Draft Report

January 09, 2013

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA-FY12-0306
New Procedures Aided Region 5 in Reducing Unliquidated Obligations

FROM: Susan Hedman
Regional Administrator

TO: Melissa M. Heist
Assistant Inspector General for Audit

Thank you for the opportunity to respond to the recommendations in the audit report titled, “*New Procedures Aided Region 5 in Reducing Unliquidated Obligations.*” As requested in the December 12, 2012 transmission from OIG, Region 5 worked with Office of the Chief Financial Officer and the Office of Administration and Resources Management on this response. This memorandum summarizes the Agency’s position on each of the three report recommendations.

AGENCY’S OVERALL POSITION

As you will see below in the chart, the Agency agrees with the three recommendations. Region 5 has completed the corrective action suggested in recommendation 1. Corrective actions for recommendations 2 and 3 are in progress.

AGENCY’S RESPONSE TO SPECIFIC REPORT RECOMMENDATIONS

Number	Recommendation	Intended Corrective Action(s)	Estimated Completion & Contacts
1	Close out the Town of Scott grant and deobligate any funds remaining after the required documents are obtained.	The Las Vegas Finance Center made final payment of the remaining funds on November 5, 2012 and has financially closed this grant.	Completed Contact: Sharon Green, Region 5 GMO (312) 353-5661
2	Revise the ULO desktop tool to separately identify obligations that have been inactive for 180 days or more.	OCFO disabled this function in the FY 2012 ULO Desktop Tool due to issues with the data migration of the “last action date.” OCFO will restore the functionality of the ULO Desktop Tool that	The planned completion date for this corrective action is January 31, 2013. Contact: Adam Fett, Program Analyst, OFM

		highlights obligations that have been inactive for 180 days.	(202) 564-5314
3	Assess the effectiveness of the Office of Water's practice of requiring written explanations from recipients when funds are not drawn for 5 months and whether it should be applied to other types of financial agreements.	OGD will review this practice and evaluate whether the Agency should expand the practice to other assistance agreements and to interagency agreements.	OGD will obtain feedback from the EPA grants/IA management community and make a recommendation to the Grants Management Council (GMC) at the 2013 summer meeting. If the GMC determines that this practice should be expanded to other programs, OGD will make necessary changes to existing ULO review policies and develop implementing terms and conditions that will go into effect October 1, 2013. Contacts: Jennifer Hublar, OARM OGD (202) 564-5294

We appreciate the efforts of the audit team and the team's responsiveness to our comments on initial discussion drafts of this report. If you have any questions regarding this response, please contact Dale Meyer, Region 5 Comptroller at (312) 886-7561 or Eric Levy, Region 5 Audit Coordinator at (312) 353-3611.

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