



At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency, Office of Inspector General, conducted this audit to determine whether labor-charging practices at the New Mexico Environment Department comply with federal requirements. The OIG also sought to determine the effect of any noncompliance on amounts NMED claimed under EPA awards.

This report addresses the following EPA Goals and Cross-Cutting Strategies:

- *Taking action on climate change and improving air quality.*
- *Protecting America's waters.*
- *Cleaning up communities and advancing sustainable development.*

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/2013/20130617-13-4-0296.pdf

Labor-Charging Practices at the New Mexico Environment Department

What We Found

We found that three of the four NMED bureaus audited did not always comply with requirements found in the Code of Federal Regulations under 2 CFR Part 225. The Air Quality Bureau and Drinking Water Bureau charged labor, fringe benefits, and indirect costs to federal grants based upon budget allocations instead of actual activities performed. Personnel activity reports we received from the Surface Water Quality Bureau to support charges for labor costs incurred prior to July 2006 did not meet 2 CFR Part 225 requirements.

Title 2 CFR Part 225 requires that where employees work on multiple activities or cost objectives, labor charges be based upon the after-the-fact distribution of an employee's actual activity and supported by employee-signed personnel activity reports or the equivalent. NMED personnel stated that they charged labor based upon budget allocations because they thought the practice was acceptable. NMED personnel also stated that the accounting system used for SWQB timekeeping before July 2006 is no longer accessible and that employee-signed personnel activity reports from this period are no longer available.

We questioned \$298,159 in labor, fringe benefits, and related indirect costs claimed by AQB; \$2,974,318 claimed by DWB; and \$2,733,798 claimed by SWQB. We also identified an additional \$486,305 charged to a DWB-administered grant, which has not yet been reported to the EPA.

Recommendations and Planned Corrective Actions

We recommend that the Region 6 Regional Administrator disallow and recover unsupported costs of \$298,159 from AQB; \$2,974,318 from DWB; and \$2,733,798 from SWQB, unless NMED provides support that complies with 2 CFR Part 225 requirements. We also recommend that the regional administrator ensure NMED does not claim unallowable costs of \$486,305 under the DWB grant, unless it can provide support that complies with 2 CFR Part 225 requirements. In addition, we recommend that the regional administrator recover any unsupported costs claimed under AQB and DWB grants not covered in our cost-impact determination and ensure that labor-charging practices at remaining NMED bureaus with EPA grants comply with federal requirements. Region 6 agreed with our findings and four of the five recommendations. NMED agreed with recommendation 4 and disagreed with the remaining recommendations. NMED reiterated some of the comments provided during our fieldwork, but no additional information or supporting documentation was provided.

Noteworthy Achievements

AQB and DWB took corrective actions promptly when the issue was brought to their attention. Both bureaus issued written procedures that require employees to charge labor hours based upon actual activities performed. We found that employees complied with these procedures. As of April 14, 2012, labor-charging practices at all four audited bureaus comply with federal requirements.