



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Semiannual Report to Congress

October 1, 2009 - March 31, 2010



Abbreviations

| | |
|--------|---|
| ASSERT | Automated System Security Evaluation and Remediation Tracking |
| DCAA | Defense Contract Audit Agency |
| EPA | U.S. Environmental Protection Agency |
| FY | Fiscal Year |
| 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: *Clockwise, from top left:* A surface mining operation from which fill may be discharged into surface waters (EPA photo); vegetated curb extensions used to decrease stormwater runoff (EPA photo); and pipes for a water main extension project (EPA OIG photo).

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 (OIG) of the U.S. Environmental Protection Agency (EPA) made several organizational changes during the past semiannual reporting period to better protect Agency resources and increase EPA efficiency. We established the Office of Cyber Investigations and Homeland Security to help the Agency identify attacks against its computer and network systems and thus protect its resources, infrastructure, and intellectual property. Also, within our Office of Audit, we established the Efficiency Audits Division to focus on identifying potential monetary benefits within EPA operations.

However, the President's budget request for Fiscal Year 2011 for the EPA OIG will substantially inhibit our ability to perform our duties as required by the Inspector General Act and as sought by Congress. The President's budget request for the OIG of \$55.8 million is \$8.9 million less than we requested. We seek the additional funding so that we can increase OIG staffing as directed by Congress and give proper audit coverage to the areas in which the Agency's budget has increased. Grant funds not related to the American Recovery and Reinvestment Act of 2009 have increased significantly – by nearly \$2 billion for the State Revolving Funds alone and another \$475 million for the Great Lakes Restoration Initiative.

The OIG has established its own independent human resources office, as allowed by the Inspector General Act of 1978. The OIG has also established its own contracting function. The OIG and EPA's Office of Administration and Resources Management have entered into a memorandum of understanding establishing operational responsibilities for the human resources and contracting functions. These actions will help us to meet our objectives with more control over the activities related to hiring and retaining the most qualified workforce, and engage in procurement activities in support of our mission. It is our intention to work closely with, but completely independent of, EPA's contracting and human resources offices.

During the semiannual reporting period, we issued six reports on EPA's efforts related to the American Recovery and Reinvestment Act of 2009. Two site inspections of Recovery Act grants did not disclose any issues that would require action from fund recipients or EPA. We also determined that EPA promoted competition for National Clean Diesel Funding Assistance Program grants to the maximum extent possible. We did note that EPA has not provided States with clear and comprehensive guidance on how to determine the eligibility of green reserve projects.

We also found that EPA's ENERGY STAR label does not guarantee superior energy efficiency. Without an enhanced testing program, including the testing of non-ENERGY

STAR products, EPA cannot be certain that ENERGY STAR products are the most energy-efficient and cost-effective choice for consumers. Almost all of the ENERGY STAR products in our test sample met and in most cases exceeded the program's performance standards, but many non-ENERGY STAR products selected performed comparably to and in some cases better than ENERGY STAR products.

The EPA travel program lacks necessary control procedures to assure all travel authorizations were necessary and in the best interest of the government. Our preliminary review of 949 travel documents disclosed 199 incidents in which travel appeared to be self-approved by persons not authorized to do so. We intend to review this matter further.

EPA can better prepare and use independent government cost estimates for Superfund contracts to improve its ability to negotiate fair and reasonable prices. Also, EPA should record fines and penalty billings in a more timely and consistent manner, and report penalty information more efficiently. For EPA's Consolidated Financial Statements for Fiscal Years 2009 and 2008, we rendered an unqualified opinion.

As a result of an investigation conducted with the Internal Revenue Service, the president of a New Jersey landscaping company was sentenced to 5 months in prison for his part in defrauding EPA at the Federal Creosote Superfund Site in Manville, New Jersey. Several civil settlements were reached related to other EPA cases, one related to allegations of falsified invoices and another related to allegations of false claims. Further, the production manager for a Tennessee company was given 1 year of probation and fined \$5,000 for making a material false statement in a Discharge Monitoring Report required under the Clean Water Act.

EPA continues to face challenges in using its funds and accomplishing its mission in an efficient and effective manner, particularly concerning Recovery Act projects. We will continue to review the Agency's efforts to ensure funding is expended properly and human health and the environment are safeguarded.



Bill A. Roderick
Acting Inspector General

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Index of Reporting Requirements

Inspector General Act of 1978, as Amended

| Requirement | Subject | Pages |
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| Section 4(a)(2) | Review of legislation and regulations | 47 |
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| Section 5(a)(4) | Matters referred to prosecutive authorities | 43-46, 50, 54-55 |
| Section 5(a)(5) | Information or assistance refused | None |
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| Section 5(a)(10) | Prior audit, inspection, and evaluation reports unresolved | 51-52, 58-71 |
| 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 other offices, laboratories, and field sites.

EPA's Fiscal Year (FY) 2010 budget of \$10.5 billion in discretionary budget authority, which includes 17,384 full-time equivalent employees, is the highest level of funding in EPA's history. The FY 2010 budget provides a substantial increase from FY 2009. In addition to its annual budget, EPA received \$7.2 billion under the American Recovery and Reinvestment Act of 2009.

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's 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 Inspectors General, the Inspector General Reform Act of 2008 (P.L. 110-409 [H.R. 928]) was enacted.

Vision of the EPA OIG

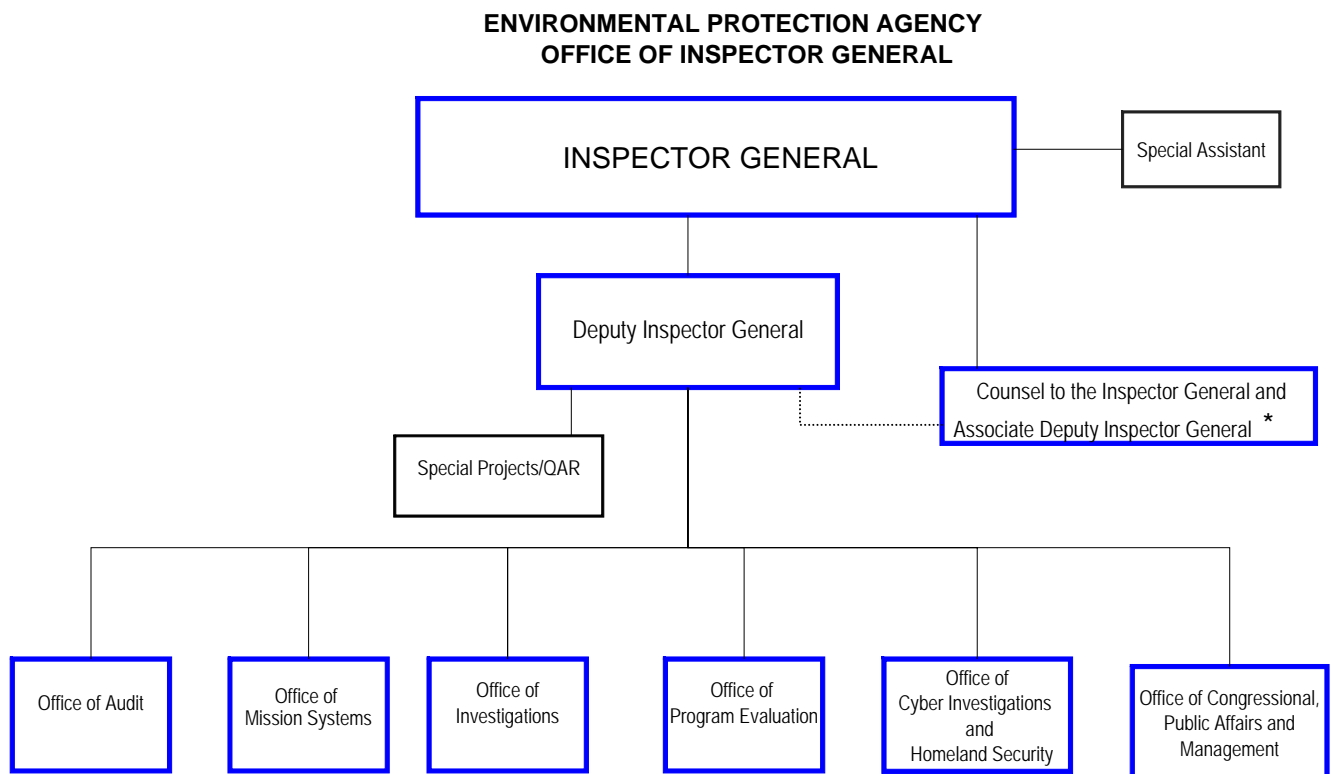
We are catalysts for improving the quality of the environment and government through problem prevention and identification, and cooperative solutions.

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.



*Reports to the Deputy Inspector General for oversight of OSR investigations

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. During the semiannual reporting period, two key organizational changes occurred:

- In November 2009, we established the **Officer of Cyber Investigations and Homeland Security**. This office is responsible for identifying and investigating attacks against EPA's computer and network systems, operating the OIG's Hotline program, and managing the OIG's continuity of operations plan.
- In December 2009, we established the **Efficiency Audits** Division within the Office of Audit. This division's mission is to identify monetary benefits within EPA operations, thus freeing resources for higher-priority efforts. Efficiency audits assess ways to improve results with the same or fewer resources.

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 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 reviews all draft and final reports to ensure conformance with standards.

Office of Audit: This office performs audits to improve the economy, efficiency, and effectiveness of Agency programs and to prevent fraud, waste, and abuse. 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.
- **Efficiency Audits:** Identifying monetary benefits and improving efficiency.

Office of Congressional, Public Affairs and Management: This office performs communication and resource management functions. Communication functions include providing communication and liaison services to Congress, the public, and the media; 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, human resource 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 Cyber Investigations and Homeland Security: This new office, established in November 2009, is responsible for identifying and investigating attacks against EPA's computer and network systems to protect EPA resources, infrastructure, and intellectual property. The office also operates the EPA OIG Hotline program and continuity of operations program. By utilizing open source and law enforcement databases, the office provides OIG employees with information to enhance their ability to meet their mission requirements. The office, through its coordination and liaison contacts with emergency response agencies from within the federal, State, and local governments, enhances EPA's operational readiness capabilities.

Office of Investigations: This office employs Special Agents 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.
- Incidents of computer misuse.
- Theft of intellectual property or other sensitive data and release of or unauthorized access to sensitive or proprietary information by EPA contractors, grantees, and other nonemployees by other than computer intrusion methods.

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. These 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 EPA programs are working. The office assesses 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.

Proposed OIG Funding Substantially Inhibits Performance of Duties

The Acting Inspector General submitted comments to Congress and the Office of Management and Budget asserting that the FY 2011 President's budget request for the EPA OIG "would substantially inhibit the Inspector General from performing the duties of the office" under Section 6(f)(3)(E) of the Inspector General Act of 1978, as amended.

The OIG's requested budget for FY 2011 (\$64,766,000) is \$8,964,000 more than the OIG's portion of the President's budget request (\$55,802,000). The additional funding is necessary as a result of congressional direction to increase OIG staffing to previous levels, and EPA's \$2.7 billion (non-Recovery Act) enacted increase for FY 2010. The increase included \$1,410,920,000 for the Clean Water State Revolving Fund, \$557,971,000 for the Drinking Water State Revolving Fund, and \$475,000,000 for the Great Lakes Restoration Initiative. The State revolving funds and the Great Lakes Restoration Initiative provide grants to States.

Grants have long been identified as high-risk activities that pose management challenges in their potential for misapplication from the intended environmental purpose, lack of accountability, and fraud. To help ensure essential transparency and the greatest public environmental benefit, the OIG should receive sufficient funds to provide oversight through audits and investigations to determine whether desired results are achieved.

Without a specific corresponding increase in OIG funds to conduct audits and investigations and to fulfill the OIG's directed staffing level to provide needed oversight and accountability, new EPA funds for grants are more vulnerable to fraud, waste, and abuse.

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

| Historical Budget and Manpower Statistics | | | |
|--|--|--|--|
| 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 | \$54,766,000 | 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 March 31, 2010, the OIG expended \$4,827,838 in Recovery Act funds and had 31.3 full-time equivalent positions in place. Details on our Recovery Act efforts begin on page 11.

OIG Establishes Own Human Resources Office, Contracting Function

The OIG has established its own independent human resources office, as allowed by the Inspector General Act of 1978. The OIG has also established its own contracting function. The OIG and EPA's Office of Administration and Resources Management have entered into a memorandum of understanding establishing operational responsibilities for the human resources and contracting functions.

Among the authorities established by Congress for Inspectors General is the authority to operate independently in providing operational human resource services to OIG employees and to enter into contracts without interference or review by their parent agency. This authority is but one of several safeguards established by Congress to protect OIG independence and objectivity. Specifically, the Inspector General Act of 1978 provides that each Inspector General, in carrying out the provisions of the Act, is authorized to “to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office subject to the provisions of title 5, United States Code, governing appointments in the competitive service...,” and “to enter into contracts and other arrangements for audits, studies, analyses, and other services with public agencies and with private persons, and to make such payments as may be necessary to carry out the provisions of this Act.” In accordance with this authority, the EPA OIG has hired staff and made other arrangements to provide for the full range of operational human resources and acquisition services to support accomplishing its mission.

OIG Annual Performance Report Issued

The OIG issued its Annual Performance Report for FY 2009, its eighth such annual report. This report contains historical statistical information, along with narrative summaries, to demonstrate the use of OIG resources and the value derived in terms of return on investment. This approach provides trends and correlations between OIG products and their subsequent outputs and outcomes in relation to our strategic goals and the fulfillment of our statutory mission.

This report fulfills the reporting requirements of the Government Performance and Results Act in demonstrating how well the EPA OIG achieved results compared to its 2009 Annual Performance Targets. It also presents OIG cumulative results for FYs 2003 through 2009.

This Annual Performance Report, designed to provide full accountability for the operations of the OIG, supplements the OIG summary statistics in EPA’s FY 2009 Performance Accountability Report. The performance report includes a bulleted account of OIG performance highlights and operational improvement, financial summaries, management challenges, summaries of OIG operations and productivity, narrative highlights of how OIG work is improving EPA operations, and the costs and timeliness of all issued products. The report is available at <http://www.epa.gov/oig/reports/2010/AnnualPerformanceReportFY2009.pdf>.

OIG Quality Assurance Program Being Applied

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 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 and evaluation activities.
- Annual self-assessments of each OIG office.
- Administrative program reviews.
- External peer reviews conducted by other OIGs.
- Use of a quality assurance checklist.

Management Challenges for the Agency

Following is a summary of the proposed key management challenges that we provided to the Agency for FY 2010. 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 2010 challenges listed below are based primarily on our audit, evaluation, and investigative work. The last three challenges listed are new.

- **The Need for a National Environmental Policy:** EPA is challenged in being able to confront emerging, cross-media, and cross-boundary challenges due to rigid environmental laws and a lack of complete authority or control over many activities that impact our nation's environment. Problems such as global climate change, stratospheric ozone depletion, the loss of biological diversity, and other broad and complex environmental issues require more concerted, coordinated efforts. EPA's organizational structure, along with a shared responsibility with States and 25 other federal agencies, results in a fragmented approach to environmental protection. A national environmental policy implemented by Congress and the Administration would help EPA and other federal agencies develop a unified approach to environmental protection.
- **Water and Wastewater Infrastructure:** Many drinking water and wastewater treatment systems are reaching the end of their life cycles, and huge capital investments are needed to replace, repair, and construct facilities so that municipalities can meet human health and environmental standards. EPA, States, and municipalities have struggled to update these systems over the years because they have not supplied sufficient funds to do so. A comprehensive approach to bridging the water and wastewater infrastructure gap would systematically assess the investment requirements; alert the public and Congress of unfunded liabilities and risks; and better enable EPA, States, and local governments to work together to organize resources to meet needs.
- **Oversight of Delegations to States:** EPA's oversight of State programs requires improvement. EPA has made progress in this area, but there are a number of factors and practices that reduce the effectiveness of Agency oversight. Key among these are limitations on the availability, quality, and robustness of program implementation and effectiveness data, and limited Agency resources to independently obtain such data. Differences between State and federal policies, interpretations, and priorities make effective oversight a challenge.

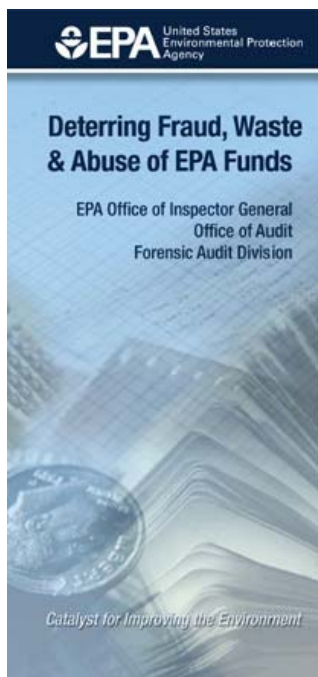
- **Safe Reuse of Contaminated Sites:** In the last decade, EPA has placed increasing emphasis on the reuse of contaminated or once-contaminated properties. However, EPA faces a number of challenges to ensure that reused contaminated sites are safe for humans and the environment, including the common practice of not removing all sources of contamination from hazardous sites; a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties; changes in site risks as site conditions change over time; and weaknesses in EPA's oversight of the long-term safety of sites. EPA has made improvements and efforts at addressing these challenges and must continue to do so.
- **Capability to Secure Agency Network Resources and Respond to Cyber Attacks:** The unknown origins of many cyber attacks and the complex ways they compromise data networks make EPA's collaboration with the U.S. Computer Emergency Readiness Team crucial to the security of EPA's network. EPA relies heavily on the team to identify external threats, develop technical solutions, and coordinate government-wide responses to cyber attacks because the Agency lacks the funds, forensic tools, and technical expertise needed to do so internally. EPA must ensure it has a comprehensive information security management structure in place to defend against cyber attacks from entities intent on obtaining sensitive data that could be used against the U.S. government or economy.
- **Reducing Domestic Greenhouse Gas Emissions:** EPA has faced a number of challenges since the Supreme Court ruled that greenhouse gases are air pollutants under the Clean Air Act and required that EPA determine whether it should regulate such emissions for new motor vehicles. EPA is addressing domestic greenhouse gas emissions through three avenues: (1) regulations, (2) voluntary programs, and (3) research and development. Each presents the Agency with challenges that are, to some extent, beyond its direct control. EPA faces political and private opposition to its regulatory actions, and the Agency is relying on voluntary programs to reduce greenhouse emissions, some of which are based on limited, unverified, and anonymous data. Also, EPA is relying on two multi-Agency research and development programs to accelerate development of new and advanced technologies but has limited control over this research.
- **EPA's Framework for Assessing and Managing Chemical Risks:** EPA's framework for assessing and managing chemical risks has not yet achieved the goal of protecting human health and the environment, and is hampered by limitations on the Agency's authority to regulate chemicals under the Toxic Substances Control Act. The Act lacks enforcement provisions and the administrative authority to seek injunctive relief, issue administrative orders, collect samples, and quarantine and release chemical stocks. EPA must better manage existing authorities until the Act's reform occurs.

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 received under the Act. Reports on our findings are posted on our Website and at <http://www.recovery.gov> as published. An assessment of EPA progress after one year based on our work is at http://www.epa.gov/oig/reports/2010/ARRA_One-Year_Overview_Report-March_2010.pdf. The OIG reviews, as appropriate, concerns raised by the public about specific investments using funds made available by the Recovery 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 Conducts Outreach to Deter Fraud, Improve Efficiency



Brochure prepared by OIG Forensic Audits Division. (EPA OIG)

The OIG has undertaken extensive outreach efforts to better enable EPA and Recovery Act grant and contract recipients to manage funding and avoid fraud, waste, and abuse.

During the semiannual report period, the OIG's Forensic Audits Division published a brochure, *Deterring Fraud, Waste & Abuse of EPA Funds*. The brochure, which describes what we look for concerning fraud, waste, and abuse, can be viewed and downloaded at http://www.epa.gov/oig/reports/2010/OIG_forensics_brochure.pdf.

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. The OIG participated in Agency workgroups and committees and commented on the Agency's Recovery Act Risk Mitigation Strategy (Stewardship Plan) to assist it in developing strategies and establishing controls to implement the Recovery Act. Also, the OIG is using EPA financial systems to monitor EPA awards and recipient draws. OIG staff met with senior EPA grant and contract officials to discuss the OIG's ongoing work and risks observed related to Recovery Act programs.

The 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. A key goal is to educate stakeholders and provide resources to help them use funds appropriately. The office has provided Recovery Act-specific fraud training and presentations to Agency personnel; State, tribal, and local officials; contractors; and grant recipients. As of March 31, 2010, the office had provided 100 briefings across the country to over 3,390 personnel who are administering or receiving Recovery Act funding. The office has 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, the Office of Investigations developed 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. We have distributed over 6,000 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.

Several western States 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. Many States have either made it a requirement or strongly encouraged any recipient of Recovery Act funds to attend our fraud presentation, and the OIG has already made approximately 22 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 related to Recovery Act funds are reported, the EPA OIG will investigate. To date, we have opened 14 criminal investigations involving Recovery Act-related issues. We will also proactively initiate investigations.

Site Inspections of Recovery Act Projects Did Not Note Problems

As part of the OIG's efforts to ensure that EPA is spending its Recovery Act funds in accordance with requirements, we are conducting a number of site inspections. For two site inspections completed, nothing came to our attention that would require action from the fund recipients or EPA.

The Village of Buckeye Lake, Ohio, received a \$6,615,297 Drinking Water State Revolving Fund loan to upgrade its water distribution system, including \$5,000,000 in

Recovery Act funds for principal forgiveness. As part of our inspection, we toured the project, interviewed village representatives and contractor personnel, and reviewed documentation related to Recovery Act requirements. No problems came to our attention. (*Report No. 10-R-0079, American Recovery and Reinvestment Act Site Inspection of the Water Distribution System, Village of Buckeye Lake, Ohio, March 10, 2010 – Report Cost: \$44,572*)

The City of Manchester, New Hampshire, acting by and through Manchester Water Works, received a \$2,536,087 loan from the New Hampshire Department of Environmental Services under the Drinking Water State Revolving Fund program. The loan included up to \$1,268,043 in Recovery Act funds for principal forgiveness. The purpose of the loan is to extend and install water main pipes in the Lynchville Park and



Pipes for water main extension project, Goffstown, New Hampshire. (EPA OIG photo)

Danis Park areas of Goffstown, New Hampshire. As part of our inspection, we toured the Lynchville Park and Danis Park water main extension project; conducted interviews of city, contractor, and subcontractor personnel; and reviewed documentation related to Recovery Act requirements. No problems came to our attention. (*Report No. 10-R-0080, American Recovery and Reinvestment Act Site Inspection of Water Main Extension Project, Manchester Water Works, Manchester, New Hampshire, March 17, 2010 – Report Cost: \$61,185*)

EPA Maximized Competition for Clean Diesel Program Grants

EPA promoted competition for Recovery Act grants to the maximum extent possible for the National Clean Diesel Funding Assistance Program.

EPA achieved three important goals in promoting competition for Recovery Act grants under the National Clean Diesel Funding Assistance Program: (1) competition was fair and impartial, (2) all applicants were evaluated only on criteria established in the announcement, and (3) EPA made an effort to mitigate the risk of any applicant receiving an unfair competitive advantage. In 2009, EPA received significantly more applicants and proposals for grant awards than in 2008. We noted a potential best practice when EPA issued a national Request for Applications and universal guidance for reviewers and selection officials; this practice should be considered for other grant programs.

(*Report No. 10-R-0082, EPA Maximized Competition for Recovery Act Grants under the National Clean Diesel Funding Assistance Program, March 23, 2010 – Report Cost: \$204,872*)

EPA Should Provide Definitive Guidance for Green Reserve Projects

EPA has not provided States with clear and comprehensive guidance on how to determine the eligibility of green reserve projects. EPA cannot provide a reasonable assurance that such projects will meet the objectives of Congress.

Clean Water and Drinking Water State Revolving Funds provide low-interest loans to protect water quality and public health. The Recovery Act provided \$6 billion in these funds to States and required that at least 20 percent of this funding support green projects (water or energy efficiency, green infrastructure, or environmentally innovative activities).

Although EPA had been promoting a green approach for at least a year prior to the enactment of the Recovery Act, it did not develop and issue timely, clear, and



Vegetated curb extensions used in Portland, Oregon, to decrease stormwater runoff. (EPA photo)

comprehensive guidance for green reserve projects to meet many of the States' needs. For example, EPA did not provide guidance on how to solicit and select green projects until after many States had finished doing so; some States then felt they should resolicit for green projects while others did not.

EPA's guidance and subsequent updates have not addressed important aspects of project selection. At the time of this review, EPA had not established water- and energy-efficiency threshold ranges for many types of green projects, or provided sufficient information to States on developing business case justifications. Moreover, changes in EPA's guidance resulted in EPA regions applying different standards when approving States' proposals.

We recommended that EPA develop and revise green reserve guidance for States and review States' submitted green reserve projects and accompanying business cases. The Agency did not formally agree or disagree with our recommendations.

(Report No. 10-R-0057, EPA Needs Definitive Guidance for Recovery Act and Future Green Reserve Projects, February 1, 2010 – Report Cost: \$329,423)

EPA Faced Challenge in Meeting Drinking Water Fund Deadline

Facing a myriad of challenges, EPA and the States used various approaches to mitigate the risk of Drinking Water State Revolving Fund projects not meeting the Recovery Act deadline of February 17, 2010, for having projects under contract or construction.

The Recovery Act provided \$2 billion for the Drinking Water State Revolving Fund and required projects to be under contract or construction as of February 17, 2010, to avoid reallocation of funds. As of November 1, 2009, 257 projects, totaling \$323.9 million, were under contract. We had made three observations about improvements to EPA processes for ensuring that States met the deadline:

- EPA was unaware of projects not under construction nationwide.
- EPA did not establish procedures to assist States with projects not under contract.
- EPA's Recovery Act Risk Mitigation Plan (Stewardship Plan) did not contain specific actions to identify States at risk of not meeting the deadline.

EPA would have had to reallocate funding for projects not under contract by February 17, 2010; such a reallocation would cause a delay that could negatively affect job creation and economic recovery.

We recommended in a briefing report that EPA identify and monitor projects not under contract, establish a contingency action plan, and complete its written procedures for reallocating funds not under contract. EPA implemented actions that met the intent of those recommendations by increasing its participation in State efforts to establish contracts for Recovery Act-funded projects by February 17, 2010, and finalizing procedures for reallocation. We also recommended that EPA specify the actions it will take in its Stewardship Plan. EPA did not implement this recommendation because it believed the States would make sufficient progress.

In testimony before the House Committee on Transportation and Infrastructure on February 23, 2010, EPA's Senior Accountable Official for the Recovery Act stated that all State Revolving Funds awarded to States were under contract or construction by the deadline, and no funds would need to be reallocated.

(Report No. 10-R-0049, EPA Action Needed to Ensure Drinking Water State Revolving Fund Projects Meet the American Recovery and Reinvestment Act Deadline of February 17, 2010, December 17, 2009 – Report Cost: \$424,756)

Agency Internal Control Design Found to Be Sufficient

Although we did not test implementation of EPA's procedures for reviewing quarterly Recovery Act data, we believe the Agency sufficiently designed its internal controls to detect material omissions and significant reporting errors.

We conducted this review as part of a government-wide effort to review federal agencies' processes for reviewing Recovery Act data submitted by recipients of federal funds. We reviewed EPA's policies and procedures for reviewing quarterly Recovery Act data and met with the Agency's Recovery Act officials responsible for implementing these policies and procedures throughout the Agency. We forwarded our results to the Recovery Accountability and Transparency Board for consolidation in the overall government report sent to Congress.

(Report No. 10-R-0020, EPA Recovery Act Recipient Reporting and Data Review Process, October 29, 2009)

Additional OIG Audits and Evaluations Underway

The OIG has initiated the following audits and evaluations to determine whether EPA and funding recipients manage projects effectively and meet Recovery Act objectives.

- EPA's Assessment of Past Performance and Determination of Responsibility for Contractors Awarded Recovery Act Funds
- EPA's Recovery Act Targeting Criteria
- Recovery Act Diesel Emission Retrofit Program
- EPA's Use of Interagency Agreements for Recovery Act Activities
- EPA's Resource Allocation for Recovery Act Contract and Assistance Agreement Oversight
- EPA and State Oversight of Recovery Act Clean Water State Revolving Fund Projects
- Implementation of Recovery Act Stewardship Plan for Superfund Remedial Program Contracts
- Financial Reporting for the Recovery Act
- Oversight of Leaking Underground Storage Tank Program
- EPA Data Quality Review Processes

Other Significant OIG Activity

Water

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

EPA Needs a Framework to Identify Clean Water Act Violations

Without an effective strategy, EPA cannot be assured that it is sufficiently protecting wetlands and other surface waters from improper dredged or fill activity.

Section 404 of the Clean Water Act regulates the discharge of dredged or fill material into wetlands and surface waters. Based on a 1989 memorandum of agreement, EPA has the lead enforcement role for flagrant or repeat violations involving cases where the violator has not applied for a valid Clean Water Act Section 404 permit from the U.S. Army Corps of Engineers.



Fill from surface mining operations may be discharged into surface waters or wetlands. (EPA photo)

EPA lacks a systematic framework to identify Section 404 violations. EPA has a limited field presence and relies on complaints and referrals from external sources. The national data system is incomplete and coordination with federal and State partners is sporadic. As a result, EPA cannot be sure it is adequately protecting wetlands and does not have the necessary inputs to make informed decisions about the allocation of resources to Section 404 enforcement.

Based on our recommendations, EPA agreed to develop and implement a comprehensive Section 404 enforcement strategy to address issues such as communication with enforcement partners and a system to track violations. EPA did not agree that the 1989 memorandum of agreement should be revised, stating that its planned enforcement strategy would address how it collaborates with the U.S. Army Corps of Engineers and processes referrals. Both recommendations are undecided.

(Report No. 10-P-0009, EPA Needs a Better Strategy to Identify Violations of Section 404 of the Clean Water Act, October 26, 2009 – Report Cost: \$998,055)

For details on additional water issues, refer to:

- Page 14, “EPA Should Provide Definitive Guidance for Green Reserve Projects.”
- Page 15, “EPA Faced Challenge in Meeting Drinking Water Fund Deadline.”
- Page 33, “Reviews of Special Appropriation Act Project Grants Note Potential Savings.”
- Page 34, “EPA Should Recover Questioned Costs Claimed by Walker Lake Working Group.”
- Page 44, “Civil Settlement Reached Related to Invoice Submissions.”
- Page 44, “Production Manager Sentenced for Filing False Report.”
- Page 45, “Company Ordered to Pay \$200,000 Fine for Water Discharge Violations.”

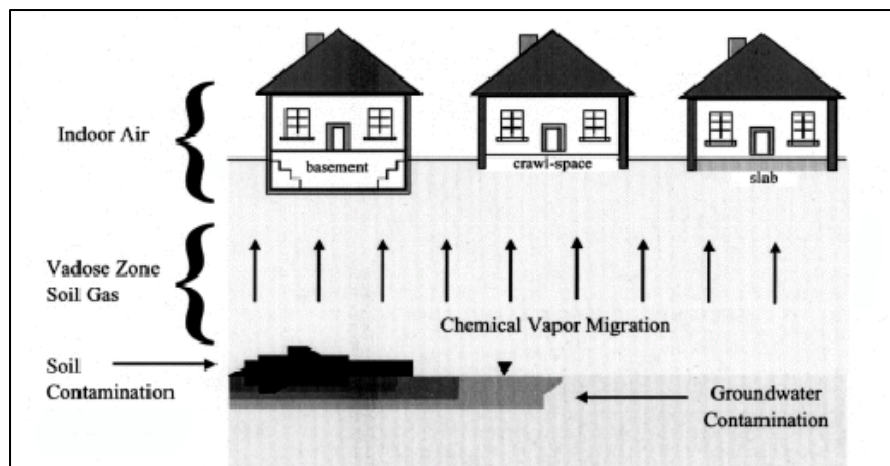
Superfund/Land

Improving waste management and clean-up

Lack of Final EPA Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks

EPA's efforts to protect human health at sites where vapor intrusion risks may occur have been impeded by the lack of final Agency guidance.

Vapor intrusion is the migration of volatile chemicals from the subsurface into overlying buildings. EPA has acknowledged that current and former contaminated sites could have extensive vapor intrusion issues and pose a significant risk to the public. EPA issued draft guidance in 2002. EPA's draft guidance has limited purpose and scope, contains outdated toxicity values, does not address mitigating vapor intrusion risks or monitoring the effectiveness of mitigation efforts, does not clearly recommend a multiple-lines-of-



Vapor intrusion migration. (EPA illustration)

evidence approach in evaluating and making decisions about vapor intrusion risks, and is not recommended for assessing vapor intrusion risks associated with underground storage tanks.

EPA has not finalized its 2002 draft guidance because 2007 guidance from the Interstate Technology Regulatory

Council addressed many of the issues that EPA's finalized guidance would have addressed. In addition, the Agency said that issuing final guidance is problematic because the associated science and technology is evolving and lengthy administrative review requirements were a barrier to timely guidance. Some of these administrative requirements have been rescinded. The Agency is developing a roadmap of technical documents to update its draft guidance.

We recommended that EPA issue final guidance to establish current Agency policy on the evaluation and mitigation of vapor intrusion risks, and finalize toxicity values for trichloroethylene and perchloroethylene. The Agency agreed and provided milestones.

(Report No. 10-P-0042, *Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks*, December 14, 2009 – Report Cost: \$454,233)

Increased Oversight Needed at Wildcat Superfund Site in Delaware

Our inspection of the Wildcat Landfill Superfund Site near Dover, Delaware, found that more sampling and EPA oversight are needed to ensure the site remains safe for humans and the environment.

Wildcat Landfill was added to the Superfund National Priorities List in 1983 and deleted from the list in 2003. The site was contaminated by disposal of paint sludge and municipal, industrial, and latex waste. In 2005, the site was sold to Kent County, Delaware, which plans to reuse the site for public recreation purposes.

Our independent sampling results were generally consistent with Region 3's historical results. However, surface waters at the site have a sheen that resembles petroleum.



The remediated Wildcat Superfund Landfill Site. (EPA OIG photo)

The clean-up remedy does not address petroleum contamination. Region 3 had not tested for petroleum but agreed to do so in September 2009. In December 2009, the Region reported that it had detected petroleum at levels below public health standards and it will continue to monitor the site's petroleum levels.

The site has not been cleaned up to standards that allow for unrestricted public access. However, Kent County plans to create a greenway and construct a bike path on the landfill. Also, a local small business owner who purchased an acre of the site has inquired about building a storage facility. The Region is aware of the County's plans and agreed to formally document discussions with the site owner and review reuse plans.

We recommended that Region 3 modify its sampling and analysis approach to ensure proper testing, address contamination that exceeds standards, and improve oversight of site reuse plans. Region 3 agreed with our recommendations and has initiated or completed some actions.

(Report No. 10-P-0055, Changes in Conditions at Wildcat Landfill Superfund Site in Delaware Call for Increased EPA Oversight, January 26, 2010 – Report cost, including contractor costs: \$285,382)

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

- Page 25, "EPA Not Sufficiently Notified by Response Center about Leaking Well."
- Page 30, "EPA Can Better Prepare and Use Independent Government Cost Estimates for Superfund Contracts."
- Page 36, "EPA Should Continue Reducing Federal Advances and Special Accounts."
- Page 43, "Sentencings Continue in Bid Rigging Case at New Jersey Superfund Site."
- Page 45, "No Evidence of Criminal Activity Found in EPA Coal Ash Rulemaking."

Enforcement*Helping to improve compliance with environmental requirements***High Priority Violations of Clean Air Act Not Addressed in a Timely Manner**

High priority violations of the Clean Air Act were not addressed in a timely manner. About 30 percent of State-led high priority violations and 46 percent of EPA-led high priority violations were unaddressed after 270 days, which can result in significant environmental and public health impacts.

In 1998, EPA revised a 1992 policy to prioritize violations of the Clean Air Act by stationary sources. Despite this policy revision, we found that high priority violations are not being addressed in a timely manner. Although EPA had noted some of these deficiencies, it has not developed a plan to correct them. Regions did not:

- Ensure that sources receive notices of violation within 60 days.
- Hold meetings with States to discuss a strategy for high priority violations unaddressed for 150 days.
- Take over delinquent State high priority violation cases when appropriate.
- Ensure that States entered accurate data into the Air Facility System database.

Also, EPA Headquarters did not use the watch list and trend reports to assess performance of regions and States in addressing high priority violations, and several States addressed high priority violations with informal rather than formal enforcement actions.

We recommended that EPA direct regions to comply with the 1998 high priority violation policy, revise this policy as needed, and implement proper controls over high priority violations. EPA did not agree to revise the 1998 policy because it intends to review it before committing to a revision. EPA concurred with our other recommendations but did not provide sufficient detail on planned actions.

(Report No. 10-P-0007, EPA Oversight and Policy for High Priority Violations of Clean Air Act Need Improvement, October 14, 2009 – Report Cost: \$673,050)

Cross-Media*Evaluating nontraditional approaches to protecting the environment and challenges that cut across programs***ENERGY STAR Label Does Not Guarantee Superior Energy Efficiency**

Without an enhanced testing program, including the testing of non-ENERGY STAR products, EPA cannot be certain that ENERGY STAR products are the most energy-efficient and cost-effective choice for consumers.

EPA established the ENERGY STAR Labeling Program as an innovative approach to environmental protection. More than 40,000 individual product models are ENERGY STAR qualified. In 2007, EPA reported that ENERGY STAR helped Americans save 180 billion kilowatt hours and prevented the emission of 40 million metric tons of carbon equivalents of greenhouse gases.



A monitor – an ENERGY STAR product category. (EPA photo)

Almost all of the ENERGY STAR products in our test sample met and in most cases exceeded the program's performance standards. However, selected non-ENERGY STAR products performed comparably to and in some cases better than ENERGY STAR products. This level of performance affects the ENERGY STAR label's image as a trusted national symbol for determining superior energy efficiency. Our testing results called into question the assumptions used to calculate energy savings and greenhouse gas reductions attributed to the ENERGY STAR program.

We recommended that EPA verify estimated energy savings and greenhouse gas reduction calculations using a market-based performance testing program that includes testing non-ENERGY STAR products, and that EPA revise the ENERGY STAR Website to include the established standard alongside qualifying product performance data and to provide a summary listing of the highest performers. Although the Agency disagreed with our conclusions, it concurred with our recommendations.

(Report No. 10-P-0040, ENERGY STAR Program Integrity Can Be Enhanced Through Expanded Product Testing, November 30, 2009 – Report Cost: \$489,338)

EPA's Approach to Toxic Substances Control Act Uncoordinated

EPA does not have integrated procedures and measures in place to ensure that new chemicals entering commerce do not pose an unreasonable risk to human health and the environment.

EPA is responsible for ensuring that new chemicals entering commerce do not pose unreasonable risk to human health and the environment. EPA's New Chemicals Program had limitations in three processes intended to identify and mitigate new risks – assessment, oversight, and transparency. Factors contributing to EPA's uncoordinated approach include:

- An absence of test data and a reliance on modeling.
- Emphasis and resources that are not commensurate with the scope of monitoring and oversight work.
- Procedures for handling confidential business information requests that are predisposed to protect industry information rather than to provide public access to health and safety studies.
- Performance measures for managing risks from new chemicals that do not accurately reflect program performance in preventing risk and do not ensure compliance.

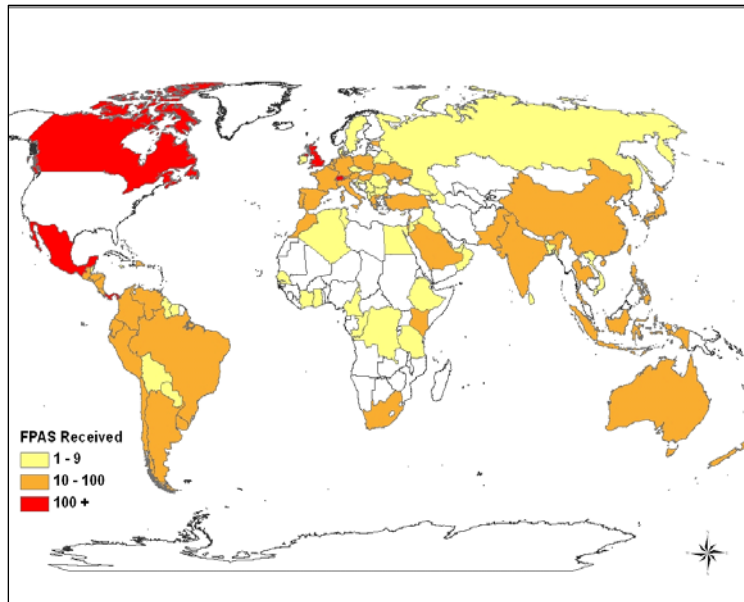
We recommended that EPA establish a management plan with new goals and measures to demonstrate the results of EPA actions. We also recommended that EPA establish criteria for selecting chemicals or classes of chemicals for low-level exposure and cumulative risk assessments, and develop confidential business information classification criteria to improve EPA's transparency and information sharing. Further, we recommended that EPA develop a management plan that includes training, consistent enforcement strategies across regions for monitoring and inspection protocols, and a list of manufacturers and importers of chemicals for strategic targeting. The Agency agreed with our recommendations.

(Report No. 10-P-0066, EPA Needs a Coordinated Plan to Oversee Its Toxic Substances Control Act Responsibilities, February 17, 2010 – Report Cost: \$786,181)

EPA Must Ensure Pesticide Manufacturers Comply with Export Notification Requirements

Because EPA does not evaluate the safety of unregistered pesticides intended solely for export, the extent of dietary risk from these never-registered pesticides on imported foods is unknown.

Pesticides not registered for use in the United States may be manufactured domestically and exported. EPA is responsible for implementing Section 17(a) of the Federal Insecticide, Fungicide, and Rodenticide Act, which requires that the foreign purchaser of



Foreign purchaser acknowledgement statements received by EPA from importing countries in 2007. (EPA OIG graphic)

an unregistered pesticide sign a foreign purchaser acknowledgement statement acknowledging that the pesticide is not registered and cannot be sold for use in the United States.

Section 17(a) also requires EPA to forward copies of all foreign purchaser acknowledgement statements received to the appropriate government officials of the importing countries. However, EPA is not complying with the requirements of Section 17(a).

Importing country governments are not consistently notified by EPA that they are importing a potentially hazardous pesticide. Further, export data on unregistered pesticides are insufficient for tracking and analysis. Also, because

EPA does not evaluate the safety of unregistered pesticides intended for export, it cannot provide the Food and Drug Administration and the U.S. Department of Agriculture with information to monitor and detect residues of these pesticides on imported foods.

The Agency responded that it did not find any basis for changing its procedures after reviewing the foreign purchaser acknowledgement statements highlighted in our report. However, subsequently, the Agency provided a corrective action plan that meets the intent of the OIG's recommendations to comply with its statutory mandates and implement management controls. We concurred with the proposed corrective action plan and appreciated the constructive approach to the issues raised in the report.

(Report No. 10-P-0026, EPA Needs to Comply with the Federal Insecticide, Fungicide, and Rodenticide Act and Improve Its Oversight of Exported Never-Registered Pesticides, November 10, 2009 – Report Cost: \$736,223)

EPA Has Limited Assurance It Can Maintain Continuity of Operations

EPA has limited assurance that it can successfully maintain continuity of operations and execute mission-essential functions during a significant national event such as a pandemic influenza outbreak.



A diagnostic test to detect novel influenza virus. (Centers for Disease Control and Prevention photo)

Federal Continuity Directive 1 requires EPA to develop a continuity plan that ensures its ability to accomplish its mission-essential functions from an alternative site with limited staffing and without access to resources available during normal activities.

EPA's continuity of operations policy does not clearly define authorities and responsibilities for continuity planning at all levels of the Agency and has not been updated to reflect current national directives and guidance. EPA lacks internal management controls, including guidance and systematic oversight, to ensure that regional offices have developed required continuity plans. Regions' plans are generally inconsistent, and there was no evidence that EPA Headquarters reviewed, approved, or commented on the regions' plans.

EPA's continuity training and exercises have not prepared the Agency to provide essential services during a significant national event. Also, the exercises do not test EPA's ability to execute mission-essential functions following continuity of operations activation. Four of the six regions contacted and all but one program office have not conducted internal exercises to test capabilities.

We recommended that EPA establish a schedule to complete requirements, designate a lead office for continuity of operations planning, and identify Headquarters and regional responsibilities and authorities. EPA should also develop consistent mission-essential functions, and review and approve all regional and program office continuity of operations plans. The Agency concurred with our recommendations.

(Report No. 10-P-0017, EPA Needs to Improve Continuity of Operations Planning, October 27, 2009 – Report Cost: \$519,022)

Special Reviews *Reviewing issues of fraud, waste, and misuse in EPA programs*

EPA Travel Program Needs Improved Controls

The EPA travel program lacks necessary control procedures to assure all travel authorizations were necessary and in the best interest of the government.

GovTrip is the single EPA travel management system for scheduling, approving, and auditing travel authorizations and payments. The General Services Administration is the federal manager for GovTrip and EPA's Office of the Chief Financial Officer manages GovTrip for the Agency.

Our preliminary review of 949 travel documents extracted from the Financial Data Warehouse covering the period September 2008 to April 2009 disclosed 199 incidents where travel appeared to be self-approved by persons not authorized to do so. EPA's travel policy states that self-approved travel is not permitted below the level of Office Directors, Laboratory Directors, and their equivalents (presumably Senior Executive Service and Excepted Service personnel). Poor internal controls also allow personnel to change the routing chain for travel approval without notifying their supervisor of record. Personnel can request the Agency's GovTrip helpdesk to change the routing or can make the change electronically through the GovTrip system.

This interim report was for information purposes only and did not provide any final conclusions or recommendations by the OIG. We plan to review the 199 travel records further for potential violations of the Agency's travel policy, and we also intend to assess the reliability of the GovTrip data in the Financial Data Warehouse.

(Report No. 10-P-0078, EPA Travel Program Lacks Necessary Controls, March 9, 2010 – Report Cost: \$548,603)

EPA Not Sufficiently Notified by Response Center about Leaking Well

We found that the National Response Center did not provide EPA with calls or voicemail messages from a North Carolina constituent regarding a leaking well. When the Agency was informed of the leak, EPA's On-Scene Coordinator contacted the constituent and arranged for permanent repairs to the well, which were completed April 28, 2009.

A U.S. Representative requested that we investigate the events surrounding a response to an April 25, 2009, telephone report of a leaking well in Skyland, North Carolina. The National Response Center, operated by the U.S. Coast Guard, U.S. Department of

Homeland Security, is the sole national point of contact for reporting such discharges. During nonbusiness hours, the EPA emergency hotline is programmed to forward all incoming calls to the National Response Center.

We found that the National Response Center received voicemails about the leaking well from two other callers on April 25, 2009, but did not provide any response to the voicemails. The center's Operations Officer told us the center did not listen to the voicemails until September 2009. When the voicemails were discovered, center staff took no actions to inform EPA of the calls.

Prior to April 25, 2009, we determined that 12 voicemails were left with the National Response Center dating back to 2006. We found inconsistencies in the statements of the National Response Center and its telephone contractors regarding who was aware of voicemail problems and when.

We presented our findings to the U.S. Department of Homeland Security Office of Inspector General so it may determine corrective actions taken and still needed.

(Report No. 10-P-0027, Congressionally Requested Inquiry into EPA's Response to a Report of a Leaking Well in North Carolina and the National Response Center Hotline, November 10, 2009 – Report Cost: \$120,684)

Unauthorized Work-at-Home Arrangement Noted Based on Hotline Review

In response to a Hotline complaint, we found an unauthorized full-time work-at-home arrangement that has existed for 9 years and allows an EPA National Enforcement Training Institute employee to work from home in Ohio instead of at an office in Washington, DC.

The employee and position were originally located in the Washington, DC, area but the employee moved as a result of a spouse transfer. In our opinion, the institute's actions were for the benefit of a single employee rather than the interests of the government, and were not equitably provided to others within the institute. EPA has no established or consistent policy, procedure, or criteria for granting full-time work-at-home privilege. Neither the institute nor EPA's Office of Administration and Resources Management has any written documentation showing the government interest in or appropriateness of making this arrangement, or that senior Office of Administration and Resources Management officials approved this action. EPA Headquarters officials said they were aware of similar arrangements in research performed for an unrelated court case and they believe these arrangements must be brought under control.

We recommended that responsibility for authorizing duty station changes be assigned to the Assistant Administrator for Administration and Resources Management. We further recommended that EPA establish and implement Agency policy that clearly articulates the process and procedures for changing an employee's duty station, and bring into compliance with the new policy all existing full-time employees at a duty station separate from the position of record. The Agency generally agreed with these recommendations.

(Report No. 10-P-0002, Review of Hotline Complaint on Employee Granted Full-Time Work-at-Home Privilege, October 7, 2009 – Report Cost: \$161,118)

Grants

Improving EPA's use of assistance agreements

Costs Questioned for National Tribal Environmental Council Grants

We found unsupported costs of \$2,768,490 and ineligible costs of \$33,732 for grants awarded to the National Tribal Environmental Council, Inc., leading us to question a total of \$2,802,222 of the recipient's reported costs of \$3,586,445.

EPA awarded three grants to the council – one to facilitate the participation of Western Indian Tribes in the Western Regional Air Partnership and two for the continued support of the National Tribal Air Association. The council is headquartered in Albuquerque, New Mexico.

The council's work plans do not describe the council's goals or objectives for its participation in the Western Regional Air Partnership and National Tribal Air Association. Thus, annual reports did not include a comparison of accomplishments with the objectives for the period as required. As a result, EPA cannot determine whether the funds EPA provided to the council achieved their intended purpose.

We recommended that EPA require the council to adequately support the \$2,768,490 questioned as unsupported, disallow and recover any costs the recipient cannot support, and recover the \$33,732 of ineligible costs. We also recommended that EPA work with the council to develop work plans and performance reports. The Agency agreed with our recommendations.

Total Reported Outlays and Questioned Costs

| Assistance Agreement | Total Reported Outlays | Outlays Questioned as Ineligible | Outlays Questioned as Unsupported |
|----------------------|------------------------|----------------------------------|-----------------------------------|
| XA 97913701 | \$2,416,877 | \$0 | \$2,012,300 |
| XA 83200101 | 1,058,370 | 33,732 | 664,956 |
| XA 83376601 | 111,198 | 0 | 91,234 |
| Total | \$3,586,445 | \$33,732 | \$2,768,490 |

Sources: Reported outlays from the recipient's Financial Status Reports and report of expenditures. Amounts questioned based on OIG analysis.

(Report No. 10-4-0067, Incurred Cost Audit of Three EPA Cooperative Agreements Awarded to National Tribal Environmental Council, Inc., February 17, 2010 – Report Cost: \$353,113)

Procedures Needed to Address Delayed Earmark Projects

Some Special Appropriation Act Project earmarked grant funds were still unobligated 5 years after Congress appropriated them, and EPA has no procedures for addressing such occurrences.

A congressional earmark is part of an appropriation designated by Congress to be spent on a particular project. Congress appropriates Special Appropriation Act Project grant funds in the form of earmarks for water infrastructure projects. EPA established the goal of completing such projects within 5 years of grant award.

Delays frequently occurred because earmark recipients either could not obtain the matching funds required to obtain the grants or the projects were complex and required extensive planning. As of April 2009, there were 84 earmarks that Congress appropriated before FY 2004 totaling over \$28 million that still had unobligated funds. Additionally, as of April 2009, there were 119 grants that EPA awarded prior to FY 2004 that had total funds remaining of over \$122 million. In many cases, funds were not completely spent because the recipient had to make changes to the work plan, or because State and local regulations caused delays.

We recommended that EPA establish a national policy that creates a response framework for dealing with unobligated earmarks. The framework should include criteria for when to escalate the handling of unobligated earmarks. We also recommended that the policy address actions to be taken when projects are delayed and include an exception reporting procedure. EPA agreed with our recommendations.

(Report No. 10-P-0081, EPA Needs Procedures to Address Delayed Earmark Projects, March 22, 2010 – Report Cost: \$403,981)

For details on additional grant issues, refer to:

- Page 13, “EPA Maximized Competition for Clean Diesel Program Grants.”
- Page 14, “EPA Should Provide Definitive Guidance for Green Reserve Projects.”

Contracts

Improving EPA's use of contracts

EPA Can Better Prepare and Use Independent Government Cost Estimates for Superfund Contracts

EPA limits its ability to negotiate a fair and reasonable price for Superfund contracts when it does not have a well-supported independent government cost estimate.

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. Such estimates are compared to the contractor's proposal to help determine price reasonableness.

EPA did not sufficiently document information in its Superfund independent government cost estimates for 30 of the 42 cases reviewed. Additionally, in 9 of the 42 cases, EPA did not update the estimates when significant changes occurred. In 8 of the 42 cases, EPA program staff accepted the contractor's estimate without evaluating why it differed from the independent government cost estimate. In some cases, EPA did not prepare the required estimate for actions with a potential value in excess of the Federal Acquisition Regulation threshold for simplified acquisitions of \$100,000.

We recommended that EPA place greater emphasis on independent government cost estimates through training and tools. EPA should prepare independent government cost estimates for all contract actions expected to exceed the simplified acquisition threshold and discontinue the practice of relying only on the contractors' estimates. EPA agreed with all our recommendations and provided a corrective action plan.

(Report No. 10-P-0065, EPA Can Improve Its Preparation and Use of Independent Government Cost Estimates for Superfund Contracts, February 16, 2010 – Report Cost: \$449,120)

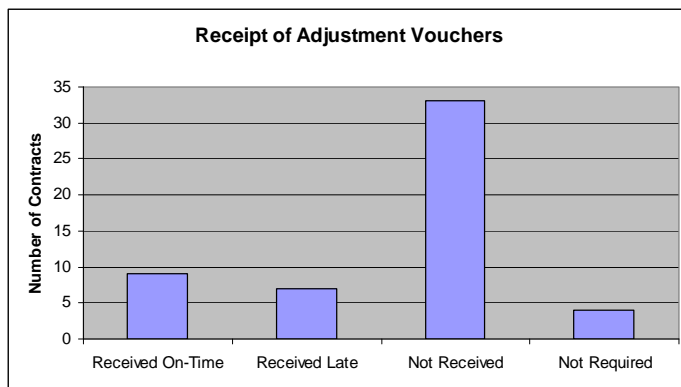
EPA Lacks Effective System to Ensure Receipt of Adjustment Vouchers

Because EPA does not have an effective system to ensure that required adjustment vouchers are received, the Agency allowed contractors to keep government funds and provided them with interest-free loans in those cases where the contractor owed EPA money.

The Defense Contract Audit Agency performs audits of final indirect cost rate proposals that impact EPA contracts. After negotiations with a contractor, EPA establishes a final

indirect cost rate agreement. After this agreement is established, the contractor is required to submit adjustment vouchers to EPA within 60 days of the agreement date to adjust for the difference between billed indirect costs and the indirect costs resulting from the application of the negotiated indirect costs rates for the period specified.

EPA did not always receive adjustment vouchers from contractors for final negotiated indirect cost rates. For 17 of the 20 Defense Contract Audit Agency audit reports in our



Source: OIG analysis of EPA data.

sample, EPA did not receive an adjustment voucher within 60 days of the agreement on at least 1 EPA contract. The 20 audit reports affected 52 EPA contracts, of which EPA did not receive adjustment vouchers for 33. The only 9 vouchers received on time all involved EPA owing the contractor money. In some cases, contractors kept money owed the government for years. As a result of our review, EPA received a credit of \$4,713 from one contractor and \$263,193 from another.

We recommended that EPA track receipt of adjustment vouchers and monies owed EPA for final negotiated indirect cost rates. We also made recommendations to identify and address agreements where adjustments have not been made, and to make various process improvements. EPA agreed with our recommendations or took satisfactory alternate corrective actions.

(Report No. 10-P-0075, EPA Does Not Always Receive Adjustment Vouchers from Contractors, March 8, 2010 – Report Cost: \$398,166)

Costs Paid for Equipment during Hurricane Responses Not Monitored

EPA did not monitor costs paid against average purchase prices for equipment used during its responses to Hurricanes Gustav and Ike, which made landfall in Louisiana and Texas in September 2008 and caused significant damage.

In our sample of 97 equipment items, with usage charges of \$4,399, EPA may have paid \$2,048 more than the average purchase price for 22 items. EPA did not require the contractor to submit average purchase price information as required in the contract. EPA could have mitigated the risk of excessive charges for equipment rentals by using the Removal Cost Management System for all emergency response contracts and tracking equipment rental costs by contract.

We found that EPA had implemented the corrective actions it agreed to in response to our 2006 report on Hurricane Katrina contracting issues. However, EPA never established a review board for Hurricanes Gustav and Ike; review boards can help improve future emergency contracting procedures. Also, EPA did not notify the OIG that several corrective actions related to our 2006 report were going to be delayed by more than 6 months, which can impact reporting to Congress.

We recommended that EPA review equipment charges for Hurricanes Gustav and Ike for usage fees that exceeded the average purchase price, negotiate new rates, and amend contract language. We also recommended that EPA develop a system to identify and prevent overcharges for emergency response contracts and notify the OIG when corrective actions are delayed more than 6 months. EPA agreed with our recommendations or proposed acceptable alternative corrective actions.

(Report No. 10-P-0047, EPA Needs to Improve Cost Controls for Equipment Used during Emergencies, December 16, 2009 – Report Cost: \$395,481)

Forensic Audits

Identifying fraud, waste, and abuse in grants and contracts

Reviews of Special Appropriation Act Project Grants Note Potential Savings

We reviewed costs claimed under Special Appropriation Act Project grants and noted instances of ineligible costs claimed.

Since 1992, EPA has awarded over 5,000 Special Appropriation Act Project grants, totaling over \$5 billion, based on congressional earmarks. EPA awarded these grants to State and local governments and quasi-governmental agencies (such as water improvement districts) to assist in planning, designing, and constructing wastewater and drinking water facilities. In FY 2007, we began reviewing selected Special Appropriation Act Project grants, and completed three reviews during the latest semiannual reporting period; these reviews noted \$2,605,331 that should be repaid to EPA.

- The **West Rankin Utility Authority, Flowood, Mississippi**, did not meet procurement and financial management requirements, and we questioned \$1,745,457 in unsupported architectural and engineering costs claimed, of which the grantee should repay \$663,321. The grantee also did not comply with monitoring requirements. Due to these noncompliances and internal control weaknesses, the grantee may not have the capability to manage future grant awards. We recommended that EPA Region 4 require the grantee to provide needed documentation and return the \$663,321 if the documentation cannot be provided, and designate the grantee as a high-risk grantee if it does not improve its policies and procedures. (*Report No. 10-4-0003, Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi, October 13, 2009 – Report Cost: \$76,786*)
- The **City of Flowood, Mississippi**, did not perform a cost analysis or negotiate a fair and reasonable profit as a separate element of the contract price as required, so we questioned \$1,755,157 in unsupported architectural and engineering costs claimed. The grantee needs to repay \$896,224 of the grant funds. The grantee also did not have its own written procurement procedures and did not maintain records sufficient to detail the procurement of the architectural and engineering



City of Flowood pump station. (EPA OIG photo)

contract. We recommended that EPA Region 4 require that the grantee provide needed documentation and return the \$896,224 if the documentation cannot be provided. (*Report No. 10-4-0013, Costs Claimed Under EPA Grant XP9468195 Awarded to the City of Flowood, Mississippi, October 27, 2009 – Report Cost: \$81,847*)

- The **City of Blackfoot, Idaho**, did not meet financial management requirements. The grantee claimed contract costs of \$1,713,009 also claimed under two other federal grants, supply and labor costs of \$24,836 not supported by source documents, and supply and administration costs of \$6,684 not eligible because they did not comply with cost principles. Based on payments made and the federal share, EPA should recover \$1,045,926 in questioned costs. The grantee also should be designated as high risk. We recommended that EPA Region 10 collect the \$1,045,926 and establish special conditions for all future awards to the grantee. (*Report No. 10-4-0086, Examination of Costs Claimed under EPA Grant XP98069201 Awarded to the City of Blackfoot, Idaho, March 29, 2010 – Report Cost: \$108,097*)

EPA Should Recover Questioned Costs Claimed by Walker Lake Working Group

The Walker Lake Working Group did not meet financial management requirements with respect to contract, travel, and other direct costs, and did not support its Financial Status Report with accounting system data. We noted \$384,678 in questioned costs.

On September 30, 2004, EPA awarded a grant for the development of a conservation plan for Walker Lake in Hawthorne, Nevada. The grant specified that EPA will contribute 100 percent of the approved allowable project costs up to the awarded amount of \$842,100.

EPA should recover \$384,678 in questioned costs under the grant if the grantee is unable to provide adequate documentation to meet the appropriate federal financial management and procurement requirements. The grantee claimed contract costs that were not allowable because analysis and administration requirements were not met, and travel and

other direct costs that were not allowable because documentation requirements or cost principles were not met.

Summary of Questioned Costs

| Cost Category | Amount Claimed | Amount Questioned |
|-------------------------------|------------------|-------------------|
| Contract Costs | \$367,415 | \$364,750 |
| Travel and Other Direct Costs | 21,434 | 19,928 |
| Totals | \$388,849 | \$384,678 |

Sources: Amounts claimed were from accounting system data the grantee provided in supporting the Financial Status Report amount. Costs questioned were based on OIG's analysis of the data.

We also recommended that EPA require the grantee to improve its procurement process and internal controls, and establish

procedures to ensure that future financial status reports are properly supported. Further, we recommended that future payments to the grantee be made on a reimbursement basis, and that reimbursement requests be reviewed and approved by EPA.

(Report No. 10-2-0054, Examination of Costs Claimed under EPA Grant X96906001 Awarded to Walker Lake Working Group, Hawthorne, Nevada, January 6, 2010 – Report Cost: \$82,312)

Equipment Purchase, Segregation of Duties Issues Noted with Grants

The OIG received a Hotline complaint regarding two assistance agreements awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina. The total federal share of the two agreements, including amendments, was \$630,851.

We determined that the Eastern Band of Cherokee Indians did not have a conflict of interest and its Federal Cash Transaction Reports were correct and prepared in compliance with federal requirements, EPA policies, and grant terms and conditions. However, we identified significant deficiencies in internal controls concerning equipment purchases and segregation of duties that required immediate attention.

We noted that some equipment purchase authorizations were dated the same day the equipment was delivered, the grantee did not always obtain three quotes, and the Asset Compliance Officer did not always authorize purchases. Regarding segregation of duties, one employee is authorized to write grant proposals; solicit funding to carry out the program goals; prepare budgets; oversee the expenditure of funds; and purchase, maintain, repair, and inventory all equipment.

We recommended that Region 4 require that (1) the grantee comply with its internal control policies and procedures with respect to equipment purchases, (2) all future purchases under these grants be properly approved, and (3) the grantee establish internal controls to ensure the proper segregation of duties for grant award and administration.

(Report No. 10-4-0001, Internal Control Weaknesses under EPA Grant Nos. I004802070 and BG96483308, Awarded to the Eastern Band of Cherokee Indians, Cherokee, North Carolina, October 5, 2009 – Report Cost: \$38,221)

For details on an additional forensic audit issue, refer to:

- **Page 12, “Site Inspections of Recovery Act Projects Do Not Note Problems.”**

Financial Management

Improving the Agency's financial management

Improvement Needed in Recording and Reporting Fines, Penalties

EPA did not consistently record fines and penalty billings in a timely manner and did not report penalty information with complete accuracy and transparency.

Assessing penalties as part of an enforcement action deters noncompliance. EPA's Cincinnati Finance Center records and tracks the billing and collection of fines and penalties.

Regional and program office personnel did not forward copies of source documents to the Cincinnati Finance Center in a timely manner, thus delaying the recording of accounts receivable. EPA did not record a receivable as required for two disputed stipulated penalties totaling \$2,839,500. EPA generally took appropriate action to collect fines and penalties. However, EPA did not monitor the collections on a \$300,000 receivable as required. Although EPA tracked the assessment, billing, and collection of fines and penalties, it used the assessments, and not the collections, as a measure of the enforcement program's impact. The Agency's data system contained 7 errors totaling \$139,242 in the penalty assessment amounts out of 156 billings reviewed related to 117 assessments.

We recommended that EPA ensure the timely recording of fines and penalty billings, monitor delinquent debt, ensure greater data system accuracy, develop a policy for recording stipulated penalties, and disclose fines and penalties collected as well as assessments when reporting enforcement action results. EPA agreed with all our recommendations.

(Report No. 10-P-0077, EPA Needs to Improve Its Recording and Reporting of Fines and Penalties, March 9, 2010 – Report Cost: \$340,813)

EPA Should Continue Reducing Federal Advances and Special Accounts

We found that a \$1.1 million federal advance to EPA from the U.S. Capitol Police had remained open because an accounting adjustment had not been completed. In addition, we found three federal special accounts that included incorrectly recorded receipts and/or expenditures totaling about \$2.5 million.

Federal advance interagency agreements and Superfund federal special accounts occur between EPA and its federal trading partners. EPA issued Superfund Special Account Guidance on July 16, 2002. However, that guidance does not address spending federal versus nonfederal special account funds. Without clear guidance, programs expended nonfederal funds before federal funds, resulting in amounts advanced by other federal

agencies remaining outstanding after the project was completed and some special account receipts and/or expenditures remaining misclassified.

As a result of our audit, in December 2009, EPA recorded a \$1.1 million adjustment related to the U.S. Capitol Police advance. In addition, during our audit, EPA corrected \$2.0 million of the \$2.5 million in incorrectly recorded federal special accounts. We recommended that EPA record the remaining \$579,126 in special account funds in the correct fund, and verify that special account receipts and expenditures are recorded in the proper fund code. The Agency concurred with our findings and recommendations.

(Report No. 10-P-0093, EPA Should Continue Efforts to Reduce Federal Advances and Federal Special Accounts, March 31, 2010 – Report Cost: \$320,000)

EPA Earns Unqualified Opinion on Financial Statements

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for FYs 2009 and 2008 (restated), meaning that they were fairly presented and free of material misstatement. However, we noted three material weaknesses and eight significant deficiencies in internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The three material weaknesses noted were:

- EPA understated accounts receivable for FY 2008.
- EPA understated unearned revenue.
- EPA should improve billing costs and reconciling unearned revenue for Superfund State Contract costs.

Significant deficiencies are deficiencies in internal controls that adversely affect the entity's ability to report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements will not be prevented or detected. The eight significant deficiencies noted were:

- EPA misstated uncollectible debt and other related accounts.
- EPA needs to improve billing and accounting for accounts receivable.
- EPA did not inventory Headquarters property items.
- EPA should improve its financial statement preparation process.
- EPA did not deobligate unneeded funds in a timely manner.
- EPA should improve the management of data system user accounts.
- EPA should improve physical access controls for the Las Vegas Finance Center.
- EPA needs improved planning for Customer Technology Solutions equipment.

We noted one noncompliance issue involving EPA's need to continue efforts to reconcile intragovernmental transactions. Our work identified monetary benefits of \$3.7 million related to issues involving State Superfund Contracts, unbilled accounts receivable, unbilled Superfund oversight costs, and unneeded funds that could be deobligated and put to better use.

In a memorandum from the Chief Financial Officer dated March 10, 2010, the Agency recognized the issues raised and indicated it will take corrective actions.

(Report No. 10-1-0029, Audit of EPA's Fiscal 2009 and 2008 (Restated) Consolidated Financial Statements, November 16, 2009 – Report Cost: \$2,240,000)

Pesticide Funds Earn Unqualified Opinions

We rendered unqualified, or clean, opinions on the FYs 2009 and 2008 financial statements for two funds EPA uses to collect fees related to pesticides.

The Pesticide Registration Improvement Act authorized EPA to assess and collect pesticide registration fees to expedite registering certain pesticides; the fees are deposited into the Pesticide Registration Fund. In our opinion, the financial statements for the fund were fairly presented and free of material misstatement. We found no instances of noncompliance. *(Report No. 10-1-0088, Fiscal Year 2009 and 2008 Financial Statements for the Pesticide Registration Fund, March 30, 2010 – Report Cost: \$155,160)*

To expedite reregistering older pesticides against modern health and environmental testing standards, Congress authorized EPA to collect fees from pesticide manufacturers; the fees are deposited into the Pesticides Reregistration and Expedited Processing Fund. In our opinion, the financial statements for the fund were fairly presented and free of material misstatement. We found no instances of noncompliance. *(Report No. 10-1-0087, Fiscal Year 2009 and 2008 Financial Statements for the Pesticides Reregistration and Expedited Processing Fund, March 30, 2010 – Report Cost: \$159,732)*

Chemical Safety and Hazard Investigation Board Financial Statements Earn Unqualified Opinion

An independent public accounting firm that audited the Chemical Safety and Hazard Investigation Board's FYs 2009 and 2008 financial statements on behalf of the OIG rendered an unqualified opinion on the statements, meaning that they were fairly presented and free of material misstatement. The auditors noted no matters involving internal control and its operation that the auditors considered to be significant deficiencies or material weaknesses. No instances of noncompliance that could have a direct and material effect on the financial statement amounts were noted. The independent public accounting firm issued its report on December 15, 2009.

Information Resources Management

Helping the Agency maintain its systems and data

EPA's Information Security Weakness Tracking System Needs Improvements

EPA's oversight and monitoring procedures for the Automated System Security Evaluation and Remediation Tracking (ASSERT) system provide limited assurance the data are reliable for assessing EPA's computer security program.

EPA uses ASSERT to gather information on testing and evaluating Agency information systems, and tracking progress made in fixing identified security weaknesses. EPA also uses ASSERT to generate reports provided to the Office of Management and Budget (OMB) pursuant to the Federal Information Security Management Act. We found that:

- Unsubstantiated responses for self-reported information contribute to data quality problems.
- Limited independent reviews and lack of follow-up inhibit EPA's ability to identify and correct data inaccuracies.
- Independent reviews lack coordination with certification and accreditation.
- Information security personnel believe they need more training.
- Limited internal reporting on required security controls and missing information in security plans inhibit external reporting.

Further, incomplete security documentation raises concerns as to whether the ASSERT application contractor is meeting federal requirements.

We recommended that EPA emphasize the importance of ensuring that personnel accurately assess and report information in ASSERT, and take other steps to improve system management. The Agency agreed with all our findings and recommendations.

(Report No. 10-P-0058, Self-reported Data Unreliable for Assessing EPA's Computer Security Program, February 2, 2010 – Report Cost: \$511,930)

EPA Deployed Unauthorized Information Technology Equipment

EPA deployed over 11,500 Customer Technology Solutions computers without assessing the risks posed to its network and without formal management acceptance of risks.

The Customer Technology Solutions contractor provides information technology end-user support and services for EPA Headquarters program offices, associated laboratories, and finance centers. Equipment has been deployed to 18 locations nationwide. OMB requires creating a security plan that complies with National Institute of Standards and Technology guidance. Vulnerability management and critical security documents are paramount to fulfilling this requirement.

EPA lacks a process to routinely test Customer Technology Solutions equipment for known vulnerabilities and to correct identified threats. Further, EPA placed this equipment into production without fully assessing the risk the equipment poses to the Agency's network and without authorizing the equipment for operations. EPA has installed over 11,500 computers nationwide and, as problems occurred, management focused its attention on addressing those issues to meet the deployment schedule milestone.

We recommended that EPA direct the Customer Technology Solutions contractor to develop and implement a vulnerability testing and remediation process for its equipment consistent with existing EPA security policies and procedures, and issue a memorandum to Agency Senior Information Officials requiring their program offices to conduct vulnerability testing. We recommended that until this process is in place, EPA require the contractor to remediate identified vulnerabilities in a timely manner. On November 9, 2009, EPA signed an authorization to operate the Customer Technology Solutions equipment, and we recommended EPA ensure that all key actions are completed by the milestone dates.

(Report No. 10-P-0028, Improved Security Planning Needed for the Customer Technology Solutions Project, November 16, 2009 – Report Cost: \$271,418)

EPA Needs Improved Data Migration Plans

EPA's plans for migrating data from the Integrated Contracts Management System to the EPA Acquisition System lack sufficient data integrity and quality checks to ensure the complete and accurate transfer of procurement data.

EPA's Office of Acquisition Management is replacing the Integrated Contracts Management System with the EPA Acquisition System. EPA's plans do not include proper data migration controls to ensure that the acquisition data transfer accurately and completely. In particular, contracting officers are responsible for reviewing their own contract data after data migration. Additionally, contracting officers are not required to attend data migration training. Plans to migrate closed contracts do not require verification of the accuracy and completeness of the data, which will be used for historic reporting purposes.

The contractor that completed this review recommended a third-party review of migrated data for active and inactive contracts prior to release in the EPA Acquisition System, enhancing the data migration training requirements, and developing a plan to ensure closed contract data are reviewed for accuracy. EPA generally agreed with the findings and recommendations.

(Report No. 10-P-0071, Plans to Migrate Data to the New EPA Acquisition System Need Improvement, February 24, 2010 – Report Cost: \$130,684)

Physical Security at Las Vegas Facilities Needs Improvement

EPA needs to improve physical security at its facilities in Las Vegas, Nevada.

EPA occupies space in six buildings on or near the University of Nevada-Las Vegas campus, and different EPA organizations occupy those spaces. The buildings use a card access system, administered by the Office of Research and Development.

The Las Vegas Finance Center's server room and other key areas are susceptible to unauthorized access by personnel not a part of the Finance Center. The center's areas are protected by an access control system, but the system is not administered in a manner that allows the center to monitor access to its area and thus detect and prevent unauthorized access. These physical access control problems are not limited to the Finance Center; the Office of Research and Development does not administer the system in a manner that permits the other EPA organizations in Las Vegas to monitor access to their space.

The Office of Research and Development agreed with our findings and indicated it planned to negotiate the transfer of the responsibility for maintaining and overseeing the portion of the card access system relied upon by the other offices within Las Vegas to one of the other offices. We made various recommendations to improve physical security at the Las Vegas facilities, including developing formal procedures and assessing physical security practices at EPA's Las Vegas offices. EPA agreed with our recommendations.

(Report No. 10-P-0059, EPA Needs to Improve Physical Security at Its Offices in Las Vegas, Nevada, February 3, 2010 – Report Cost: \$49,122)

Information Security Progress Made, But Further Action Needed

Our annual review of EPA's implementation of the Federal Information Security Management Act, submitted to OMB, disclosed that the Agency continues to make progress in improving its information technology security.

While EPA has developed an automated system to track program offices' responses to self-assessments of their information security program questions, greater effort is needed

to ensure the reliability of this information. Further, EPA could strengthen its information security program by:

- Developing procedures and providing training related to the certification and accreditation of EPA systems.
- Providing training so EPA personnel better understand their responsibilities for overseeing contractor compliance with federal security requirements.
- Improving practices to ensure EPA offices provide sufficient documentation to officials so they can make informed decisions about authorizing a system for operations.

(Report No. 10-P-0030, Fiscal Year 2009 Federal Information Security Management Act Report: Status of EPA's Computer Security Program, November 18, 2009)

Improvements Needed in Notifying Officials on Outstanding Financial Transactions

EPA should make changes to the programming code used to notify EPA officials of financial transactions that have not processed after 60 days.

The Office of the Chief Financial Officer developed a delinquency report for all suspense table transactions greater than 60 days old and distributed the report monthly to EPA Assistant and Regional Administrators. This process involves using a program that automatically notifies management when the transaction originator has not taken required resolution action. We found that the Office of the Chief Financial Officer relies heavily on the manual update of the programming code and had not implemented a process to routinely check the listing of officials to ensure accuracy.

We recommended that the Office of the Chief Financial Officer document a process to review the recipient list for the delinquency report. We also recommended that the office use a more advanced programming logic technique. The Office of the Chief Financial Officer agreed with the recommendations and indicated it would complete corrective actions by April 30, 2010.

(Memorandum on OIG Observations Made During the Audit of the U.S. Environmental Protection Agency's Fiscal Year 2009 Consolidated Financial Statement, issued February 18, 2010)

Investigations

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

Investigative Actions

Sentencings Continue In Bid Rigging Case at New Jersey Superfund Site

On October 28, 2009, Frederick Landgraber, of Bridgewater, New Jersey, was sentenced in U.S. District Court of New Jersey to 5 months in prison to be followed by 5 months of home detention. In addition, he was ordered to pay a \$5,000 fine and \$35,000 in restitution to EPA. Landgraber is the president and co-owner of a Martinsville, New Jersey, landscaping company.

Landgraber previously pled guilty to conspiring to defraud EPA at the Federal Creosote Superfund Site, located in Manville, New Jersey. As part of the conspiracy, Landgraber provided more than \$30,000 in kickbacks to an employee of a prime contractor in exchange for the employee steering landscaping subcontracts to Landgraber's company. Landgraber and his co-conspirator subverted the competitive bidding process by submitting intentionally high cover bids on behalf of fictitious companies. Landgraber's company received approximately \$1.5 million in subcontracts at Federal Creosote.

On February 23, 2010, James E. Haas, Jr., a former representative of a New Jersey subcontractor, was sentenced to serve 33 months in jail to be followed by 3 years of probation. He was also ordered to pay a \$30,000 fine and \$53,050 in restitution to EPA. Haas previously pled guilty to charges of fraud and conspiracy to provide kickbacks. Haas admitted to paying kickbacks to former employees of a prime contractor in exchange for the award of a subcontract to the company he represented. He also admitted to inflating bid prices for the subcontracts to include the amount of kickbacks paid to his co-conspirators.

To date, eight individuals and three companies have pled guilty as part of this investigation. Fines and restitution totaling more than \$2.7 million have been ordered.

This case is being conducted with the Internal Revenue Service Criminal Investigation Division. (Case Cost: \$199,793)

Civil Settlement Reached Related to Invoice Submissions

On October 23, 2009, D.T. Construction, Inc., Dunbar, Pennsylvania, entered into a civil settlement agreement with the U.S. Attorney's Office for the Western District of Pennsylvania to resolve allegations that the company submitted falsified invoices. DT Construction won bids on an EPA-funded project to install waterlines and a pump station in Westmoreland County, Pennsylvania. DT Construction submitted invoices to the contract administrator that contained inflated numbers of supplies. A portion of the overpayment was able to be offset, leaving a net loss of \$251,037. To resolve the allegations, the company agreed to pay \$125,000. (*Case Cost: \$255,202*)

Civil Settlement Reached to Resolve False Claims Allegations

While admitting no liability, on December 30, 2009, Automotive Testing Laboratories, Inc., Mesa, Arizona, entered into a civil settlement agreement with the U.S. Attorney's Office for the Southern District of Ohio to resolve allegations of false claims. This agreement stipulates that the contractor will pay \$85,000 to the government. In 1998, a *qui tam* suit was filed by James Moran, a former vice president and lab manager. In the suit, Moran alleged that Automotive Testing Laboratories mischarged labor and other costs, including unallowable costs, on two EPA contracts for emissions testing. In 2006, the United States intervened and joined the suit. As a result of his initial suit, Moran will receive \$48,000 from Automotive Testing Laboratories. (*Case Cost: \$276,817*)

Production Manager Sentenced for Filing False Report

On October 19, 2009, Denver Killion, former Production Manager for J.M. Huber Corporation, Etowah, Tennessee, was sentenced in U.S. District Court for the Eastern District of Tennessee to 1 year of probation and 100 hours of community services. He was also ordered to pay a \$5,000 fine and a \$25 special assessment. Further, on November 23, 2009, Killion's name was placed on the Excluded Parties List System until he petitions the EPA Suspension and Debarment Division for the withdrawal of his name from the list.

In January 2009, Killion was charged with making a material false statement in a Discharge Monitoring Report required under the Clean Water Act. Killion falsely represented that the wastewater effluent from Huber had been analyzed for aluminum concentration during January 2004 when he knew the effluent had not been tested.

This case was conducted with the EPA Criminal Investigation Division and the Tennessee Valley Authority Office of Inspector General. (Case Cost: \$48,482)

Company Ordered to Pay \$200,000 Fine for Water Discharge Violations

On November 13, 2009, Cargill Meat Solutions Corporation pled guilty in U.S. District Court for the District of Colorado to two counts of violating the Clean Water Act regarding discharges. Cargill was fined \$200,000 and ordered to pay a \$25 special assessment.

Cargill engaged in meat processing at its facility in Fort Morgan, Colorado. The facility included a wastewater treatment operation that discharged wastewater into the South Platte River under a Clean Water Act permit. However, in August 2003, Cargill violated a permit condition and discharged water containing more than 400 coliform colonies per 100 milliliters. In July 2004, Cargill again violated a permit condition and discharged water containing more than 2,875 pounds of suspended solids.

This case was conducted with the EPA Criminal Investigation Division. (Case Cost: \$97,256)

Special Report

No Evidence of Criminal Activity Found in EPA Coal Ash Rulemaking

We found no evidence of any effort to suppress the release of scientific information during the rulemaking process for coal combustion waste disposal in landfills or surface impoundments.

Coal combustion waste, largely generated by coal combustion at coal-fired utilities, is one of the largest waste streams in the United States. It typically contains a broad range of metals and is disposed of in landfills, surface impoundments, or mines. At the request of the EPA Administrator, we investigated allegations of a cover-up or other misconduct related to the risk assessment for coal ash. This issue was raised during a *60 Minutes* interview that was conducted after a Tennessee Valley Authority surface impoundment coal ash spill in late December 2008.

In May 2000, EPA found that coal combustion waste disposal in landfills and surface impoundments warranted national regulation under Resource Conservation and Recovery Act Subtitle D (nonhazardous solid wastes) but not Subtitle C (hazardous wastes). In its determination, EPA stated that it would revise its determination if it found a need to do so as a result of public comment, further analysis, or information. EPA had not issued a coal combustion waste rule for disposal in landfills and surface impoundments since May 2000.

Between 2000 and 2006, EPA addressed public comments and updated the damage cases and the draft quantitative risk assessment that had been prepared for the May 2000 regulatory determination. In 2007, EPA published a notice of data availability and the associated draft risk assessment in the Federal Register and the public docket was established. After the notice of data availability period closed, EPA commissioned a peer review, completed in September 2008. The peer review noted that the 2002 constituent screening analysis and 2005 sensitivity analysis were not available. EPA posted the screening analysis to the public docket in March 2009, and informed investigators that it would post the sensitivity analysis, revised to address errors, to the docket that will be created for the coal combustion waste proposed rule.

We determined that although the rulemaking process moved slowly in the 9 years since EPA's May 2000 regulatory determination, we did not find evidence of criminal or improper activities causing delays during the rulemaking process.

(Report No. 10-N-0019, Response to EPA Administrator's Request for Investigation into Allegations of a Cover-up in the Risk Assessment for the Coal Ash Rulemaking, November 2, 2009 – Report Cost: \$214,534)

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. We primarily base our comments on the audit, evaluation, investigation, and legislative experiences, as well as our participation on the Council of the Inspectors General on Integrity and Efficiency. During the reporting period, we reviewed 85 proposed changes to legislation, regulations, policy, and procedures that could affect EPA, and provided comments on 17. We also reviewed drafts of OMB circulars, memoranda, executive orders, program operations manuals, directives, and reorganizations. Details on two items follow.

Proposed Presidential Memorandum, *A Comprehensive Federal Strategy on Carbon Capture and Storage*. We reviewed the proposed presidential memorandum that establishes an Interagency Task Force on Carbon Capture and Storage, comprised of senior officials from pertinent agencies and co-chaired by designees from EPA and the U.S. Department of Energy. We commented that perhaps some acknowledgment that business, industry, and academia have been and continue to grapple with carbon capture and storage would be appropriate. If business, industry, and academia are not part of the interagency task force, their past and ongoing efforts should be acknowledged, and a future role for such entities should perhaps be noted in the presidential memorandum.

Proposed Executive Order, *Reducing Improper Payments*. OMB proposed an executive order to reduce improper payments by intensifying efforts to eliminate waste, fraud, and abuse in the major programs administered by the Federal Government. The proposed executive order would direct executive departments and agencies to take certain actions to help reduce improper payments made by the Federal Government to beneficiaries, grantees, and contractors. We identified two major concerns with the proposed executive order. The first concern is with the requirement that the Secretary of the Treasury would be directed to set up a hotline to collect reports of fraud, waste, and abuse that led or may lead to improper payments by the Federal Government. The second concern is with the requirement that the Council of the Inspectors General on Integrity and Efficiency would make recommendations to agency heads. We commented that both of these requirements are something the department/agency inspector general is best positioned to do.

OIG Reviews Agency's FY 2009 Draft Performance and Accountability Report

Our review of EPA's FY 2009 draft Performance and Accountability Report found that, overall, the report fulfills Government Performance and Results Act requirements.

Congress requested OIGs to annually review and report on their agencies' general compliance with the Government Performance and Results Act. We fulfilled this direction by reviewing the draft annual Performance and Accountability Report and reporting to the Agency on omissions and areas for improvement. We generally did not verify the accuracy of the data. EPA continues to incorporate improvements in the report based on our suggestions in prior years. However, the report had areas that still needed to be structurally strengthened. For example:

- **Better balance and perspective is needed.** While challenges were presented, they tended to be general. Measures and accomplishments should be put into perspective in terms of time, the universe, baselines, and overall goal.
- **Greater emphasis on collaboration and relative contribution is needed.** Many of the results and challenges depend on interaction with federal and State/tribal partners. The report should better describe the contribution to results or barriers attributable to those partners.
- **EPA results are narrow.** The presentation of results by goals and objectives is narrow and does not recognize confluence across goals and objectives. EPA should attempt to reference those interactions to present a better view of EPA's overall performance.

In response to our review comments, EPA made a number of improvements in the final version of its FY 2009 Performance and Accountability Report.

EPA OIG Conducts External Peer Review of Treasury Inspector General for Tax Administration

The EPA OIG conducted an external peer review of the Treasury Inspector General for Tax Administration for the year ended March 31, 2009. We issued our report on February 3, 2010. The organization received a rating of *pass*.

Our responsibility was to express an opinion on the design of the system of quality control and the organization's compliance with its own policies and applicable standards. We conducted our review in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency. The findings included in the accompanying Letter of Comment were not

considered to be of sufficient significance to affect the opinion expressed in the report. We identified the following recommendations to enhance the Treasury Inspector General for Tax Administration's quality control system:

- Implement a process to ensure auditors consistently follow established procedures to finalize completed audits within 30 days after the report issuance.
- Properly document in the working papers any designation of individuals below audit manager that are authorized to approve working papers.
- Configure its automated working paper system to prevent one individual from being able to prepare and approve the same working paper.

Statistical Data

Profile of Activities and Results

| Audit Operations | |
|---|--|
| Office of Inspector General Reviews | |
| | October 1, 2009 to March 31, 2010 (\$ in millions) |
| Questioned Costs * | \$5.9 |
| Recommended Efficiencies * | \$6.9 |
| Costs Disallowed to be Recovered | \$0.8 |
| Costs Disallowed as Cost Efficiency | \$6.9 |
| Reports Issued – Office of Inspector General Reviews | 41 |
| Reports Resolved (Agreement by Agency officials to take satisfactory corrective actions) ** | 112 |

| Audit Operations | |
|--|--|
| Reviews Performed by Single Audit Act Auditors | |
| | October 1, 2009 to March 31, 2010 (\$ in millions) |
| Questioned Costs * | \$0.3 |
| Recommended Efficiencies * | \$0 |
| Costs Disallowed to be Recovered | \$10.4 |
| Costs Disallowed as Cost Efficiency | \$0 |
| Reports Issued – Single Audit Act Reviews | 51 |
| Agency Recoveries Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments) *** | \$9.5 |

| Investigative Operations | |
|---|--|
| | October 1, 2009 to March 31, 2010 (\$ in millions) |
| Total Fines and Recoveries **** | \$1.2 |
| Cost Savings | \$0.3 |
| Cases Opened During Period | 52 |
| Cases Closed During Period | 32 |
| Indictments/Informations of Persons or Firms | 6 |
| Convictions of Persons or Firms | 5 |
| Civil Judgments/Settlements/Filings | 2 |

* Questioned Costs and Recommended Efficiencies are subject to change pending further review in the audit resolution process.

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

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

**** Fines and recoveries resulting from joint investigations.

Audit, Inspection, and Evaluation Report Resolution

Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending March 31, 2010

| | 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 October 1, 2009* | 138 | \$29,501 | \$0 | \$10,399 | \$0 |
| B. | Which were issued during the reporting period | 92 | \$6,062 | \$6,881 | \$80 | \$6,881 |
| C. | Which were issued during the reporting period that required no resolution | 25 | \$0 | \$0 | \$0 | \$0 |
| | Subtotals (A + B - C) | 205 | \$35,563 | \$6,881 | \$10,479 | \$6,881 |
| D. | For which a management decision was made during the reporting period | 112 | \$11,531 | \$6,881 | \$10,479 | \$6,881 |
| E. | For which no management decision was made by March 31, 2010 | 93 | \$24,032 | \$0 | \$0 | \$0 |
| F. | Reports for which no management decision was made within 6 months of issuance | 53 | \$18,168 | \$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 additional statistical information that is 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. 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 March 31, 2010 (dollars in thousands)

| Report Category | No. of Reports | Questioned Costs * | Unsupported Costs |
|---|----------------|--------------------|-------------------|
| A. For which no management decision was made by October 1, 2009 ** | 40 | \$29,501 | \$14,163 |
| B. New reports issued during period | 12 | \$6,062 | \$4,948 |
| Subtotals (A + B) | 52 | \$35,563 | \$19,111 |
| C. For which a management decision was made during the reporting period: | 15 | \$11,531 | \$737 |
| (i) Dollar value of disallowed costs | 10 | \$10,479 | \$235 |
| (ii) Dollar value of costs not disallowed | 5 | \$1,052 | \$502 |
| D. For which no management decision was made by March 31, 2010 | 37 | \$24,032 | \$18,374 |
| Reports for which no management decision was made within 6 months of issuance | 29 | \$18,168 | \$13,616 |

* Questioned costs include 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 March 31, 2010 (dollars in thousands)

| Report Category | No. of Reports | Dollar Value |
|---|----------------|--------------|
| A. For which no management decision was made by October 1, 2009 * | 0 | \$0 |
| B. Which were issued during the reporting period | 2 | \$6,881 |
| Subtotals (A + B) | 2 | \$6,881 |
| C. For which a management decision was made during the reporting period: | 2 | \$6,881 |
| (i) Dollar value of recommendations from reports that were agreed to by management | 2 | \$6,881 |
| (ii) Dollar value of recommendations from reports that were not agreed to by management | 0 | \$0 |
| (iii) Dollar value of nonawards or unsuccessful bidders | 0 | \$0 |
| D. For which no management decision was made by March 31, 2010 | 0 | \$0 |
| 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 March 31, 2010, 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 | 41 | 47% |
| Assistance Agreements | 27 | 31% |
| Contract Audits | 0 | 0% |
| Single Audits | 19 | 21% |
| Financial Statement Audits | 1 | 1% |
| Total | 88 | 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 period.

| | Semiannual Period (October 1, 2009 to March 31, 2010) |
|---|---|
| Issues Open at the Beginning of the Period | 7 |
| Inquiries Received During the Period | 345 |
| Inquiries Closed During the Period | 334 |
| Inquiries Pending or Open at the End of the Period | 18 |
| Issues Referred to Others: | |
| OIG Offices | 88 |
| EPA Program Offices | 84 |
| Other Federal Agencies | 13 |
| State/Local Agencies | 80 |

Summary of Investigative Results

Summary of Investigative Activity During Reporting Period

| | |
|------------------------------------|-----|
| Cases Open as of October 1, 2009 * | 96 |
| Cases Opened During Period | 52 |
| Cases Closed During Period | 32 |
| Cases Pending as of March 31, 2010 | 116 |

* Adjustment made to opening balance.

Investigations Pending by Type as of March 31, 2010

| | Superfund | Management | Split Funded | Recovery Act | Chemical Safety Board | Total |
|----------------------------|-----------|------------|--------------|--------------|-----------------------|------------|
| Contract Fraud | 8 | 6 | 1 | 7 | 0 | 22 |
| Assistance Agreement Fraud | 1 | 35 | 1 | 8 | 0 | 45 |
| Employee Integrity | 3 | 19 | 0 | 0 | 0 | 22 |
| Program Integrity | 1 | 8 | 1 | 1 | 1 | 12 |
| Computer Crimes | 0 | 3 | 2 | 0 | 0 | 5 |
| Other | 0 | 6 | 1 | 3 | 0 | 10 |
| Total | 13 | 77 | 6 | 19 | 1 | 116 |

Results of Prosecutive Actions

| | EPA OIG Only | Joint * | Total |
|--|--------------|-----------|------------|
| Criminal Indictments / Informations / Complaints | 3 | 3 | 6 |
| Convictions | 1 | 4 | 5 |
| Civil Judgments / Settlements / Filings | 2 | 0 | 2 |
| Fines and Recoveries (including Civil) | \$261,100 | \$328,625 | \$589,725 |
| Prison Time | 0 months | 38 months | 38 months |
| Home Detention | 6 months | 5 months | 11 months |
| Probation | 36 months | 72 months | 108 months |
| Community Service | 0 hours | 100 hours | 100 hours |

* With another federal agency.

Administrative Actions

| | EPA OIG Only | Joint * | Total |
|----------------------------------|-----------------|------------------|------------------|
| Suspensions | 2 | 0 | 2 |
| Debarments | 0 | 9 | 9 |
| Employee Resignations | 2 | 0 | 2 |
| Compliance Agreements | 0 | 1 | 1 |
| Other Administrative Actions | 6 | 1 | 7 |
| Total | 10 | 11 | 21 |
| Administrative Recoveries | \$0 | \$600,000 | \$600,000 |
| Cost Savings | \$25,660 | 0 | \$25,660 |

* With another federal agency.

Scoreboard of Results

Scoreboard of OIG Second Quarter FY 2010 (March 31, 2010) Performance Results Compared to Annual Performance Goal Targets

All results reported in FY 2010, 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. Unaudited.

| OIG FY 2010 Government Performance and Results Act Annual Performance Targets Compared to FY 2010 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: 334; Reported: 115 (34.4%)</i> | 0 Legislative/Regulatory Changes/Decisions 0 Examples of Environmental Improvement 0 Environmental or Management Best Practices Implemented 12 Environmental or Management Policy, Process, Practice, Control Change Actions Taken 56 Certifications/Validations/Verifications/Corrections 0 Environmental or Management Operational/Control Risks Reduced or Eliminated 4 Actions Taken or Resolved Prior to Report Issuance (Not Otherwise Reported) 43 Recommendations Reported as Implemented, Previously Identified as Unimplemented by OIG Follow-up * |
| Environmental & Business Recommendations, Challenges, Best Practices, and Risks Identified <i>Target: 903; Reported: 327 (36.2%)</i> | 236 Recommendations (for Agency/Stakeholder Action) 2 Critical Congressional or Public Management Concerns Addressed 4 Best Environmental or Management Practices Identified 10 Referrals for Agency Action 2 New Environmental or Management Operational Risks or Challenges Identified 44 Unimplemented Recommendations Identified 33 Recovery Act Awareness Briefings/Outreach Sessions |
| Return on Investment: Potential dollar return as percentage (120%) of OIG budget \$54.7 million <i>Target: \$65.6M; Reported: \$14 M (21%)</i> | <i>(Dollars in Millions)</i> \$6.1 Questioned Costs (Net EPA) 6.9 Recommended Efficiencies, Costs Saved (EPA) \$1.0 Fines, Recoveries, Settlements |
| Criminal, Civil, and Administrative Actions Reducing Risk of Loss/Operational Integrity <i>Target: 75; Reported: 21 (28%)</i> | 5 Criminal Convictions 6 Indictments/Informations/Complaints 21 Administrative Actions 2 Civil Settlements 12 Allegations Disproved |
| Other (no targets established) Sustained Monetary Recommendations and Savings Achieved from Current and Prior Periods: \$21M Sustained Environmental and Management Recommendations for Resolution Action Recovery Act Activity Results* <i>(also counted above)</i> Total Reports Issued: 92 | <i>(Dollars in Millions)</i> \$10.5 Questioned Costs Sustained \$10.5 Cost Efficiencies Sustained or Realized 148 Sustained Recommendations 33 Awareness Briefings/Outreach Sessions 21 Complaints Received 41 OIG-produced Reports 51 Reports by Other Audit Entities with OIG Oversight |

* Reported by Agency as implemented of those previously 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 of 2009.

| Report No. | Report Title | Date | Questioned Costs | | | Federal Recommended Efficiencies |
|-------------------------------------|--|---------------|--------------------|--------------------|--------------------|----------------------------------|
| | | | Ineligible Costs | Unsupported Costs | Unreasonable Costs | |
| PERFORMANCE REPORTS | | | | | | |
| 10-P-0002 | Hotline Complaint on Employee Granted Full-Time Work-at-Home Privilege | Oct. 07, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0007 | EPA Oversight and Policy for High Priority Violations of Clean Air Act | Oct. 14, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0009 | Violations of Section 404 of the Clean Water Act | Oct. 26, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0017 | EPA Needs to Improve Continuity of Operations Planning | Oct. 27, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0026 | Oversight of Exported Never-Registered Pesticides | Nov. 10, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0027 | Congressionally Requested Inquiry into National Response Center Hotline | Nov. 10, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0028 | Improved Security Planning for Customer Technology Solutions Project | Nov. 16, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0030 | 2009 Annual Federal Information Security Management Act Report | Nov. 18, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0040 | ENERGY STAR Program Integrity Can Be Enhanced | Nov. 30, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0041 | EPA Needs Procedures to Address Delayed Earmark Projects | Dec. 08, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0042 | Final Guidance on Vapor Intrusion | Dec. 14, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0047 | Cost Controls for Equipment Used during Emergencies | Dec. 16, 2009 | 0 | 0 | 0 | 0 |
| 10-P-0055 | Changes in Conditions at Wildcat Landfill Superfund Site in Delaware | Jan. 26, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0058 | Self-reported Data for Assessing EPA's Computer Security Program | Feb. 02, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0059 | EPA Needs to Improve Physical Security at Its Offices in Las Vegas, Nevada | Feb. 03, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0065 | Use of Independent Government Cost Estimates for Superfund Contracts | Feb. 16, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0066 | Coordinated Plan to Oversees Toxic Substances Control Act Responsibilities | Feb. 17, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0071 | Plans to Migrate Data to the New EPA Acquisition System | Feb. 24, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0075 | EPA Does Not Always Receive Adjustment Vouchers from Contractors | Mar. 08, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0077 | EPA Needs to Improve Its Recording and Reporting of Fines and Penalties | Mar. 09, 2010 | 0 | 0 | 0 | \$3,139,000 |
| 10-P-0078 | EPA Travel Program Lacks Necessary Controls | Mar. 09, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0081 | EPA Needs Procedures to Address Delayed Earmark Projects | Mar. 22, 2010 | 0 | 0 | 0 | 0 |
| 10-P-0093 | Unliquidated Obligations Under Federal Advances | Mar. 31, 2010 | 0 | 0 | 0 | 0 |
| | TOTAL PERFORMANCE REPORTS = 23 | | \$0 | \$0 | \$0 | \$3,139,000 |
| ASSISTANCE AGREEMENT REPORTS | | | | | | |
| 10-4-0001 | Grants Awarded to the Eastern Band of Cherokee Indians, North Carolina | Oct. 05, 2009 | 0 | 0 | 0 | 0 |
| 10-4-0003 | Grant Awarded to West Rankin Utility Authority, Flowood, Mississippi | Oct. 13, 2009 | 0 | \$663,321 | 0 | 0 |
| 10-4-0013 | Grant Awarded to the City of Flowood, Mississippi | Oct. 27, 2009 | 0 | 896,224 | 0 | 0 |
| 10-2-0054 | Grant Awarded to Walker Lake Working Group, Hawthorne, Nevada | Jan. 06, 2010 | \$1,663 | 383,015 | 0 | 0 |
| 10-4-0067 | Grants Awarded to National Tribal Environmental Council, Inc. | Feb. 17, 2010 | 33,732 | 2,768,490 | 0 | 0 |
| 10-4-0086 | Grant Awarded to the City of Blackfoot, Idaho | Mar. 29, 2010 | 1,031,036 | 14,890 | 0 | 0 |
| | TOTAL ASSISTANCE AGREEMENT REPORTS = 6 | | \$1,066,431 | \$4,725,940 | \$0 | \$0 |
| SINGLE AUDIT REPORTS | | | | | | |
| 10-3-0004 | Chippewa Cree Tribe, FY 2007 | Oct. 13, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0005 | Chippewa Cree Tribe, FY 2008 | Oct. 13, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0006 | West Lafayette, City of, FY 2007 | Oct. 13, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0008 | Palm Beach County Solid Waste Authority, FY 2008 | Oct. 23, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0010 | Sac and Fox Nation of Missouri, FY 2008 | Oct. 26, 2009 | \$1,735 | 0 | 0 | 0 |
| 10-3-0011 | Polk, City of, FY 2007 | Oct. 26, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0012 | Michigan Department of Agriculture, FY 2008 | Oct. 26, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0014 | Norton Sound Health Corporation, FY 2008 | Oct. 27, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0015 | Orlando, City of, FY 2008 | Oct. 27, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0016 | Hutchinson, City of, FY 2008 | Oct. 27, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0021 | York, City of, FY 2003 | Oct. 29, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0022 | Alliance for the Chesapeake Bay, FY 2008 | Oct. 30, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0023 | DeKalb-Jackson Water Supply District, Inc., FY 2008 | Oct. 30, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0024 | Gwinett, County Government, FY 2008 | Oct. 30, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0025 | Belle Glade, City of, FY 2005 | Oct. 30, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0031 | American Samoa Power Authority, FY 2008 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0032 | Seminole Nation of Oklahoma, FY 2008 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0033 | Brewer, City of, 6/30/08 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0035 | Marlborough, City of, FY 2008 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0036 | Monticello, City of, FY 2008 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0037 | Eklutna Native Village, FY 2008 | Nov. 24, 2009 | 0 | 0 | 0 | 0 |

| Report No. | Report Title | Date | Questioned Costs | | | Federal Recommended Efficiencies |
|---|---|---------------|--------------------|--------------------|--------------------|----------------------------------|
| | | | Ineligible Costs | Unsupported Costs | Unreasonable Costs | |
| 10-3-0038 | Pulaski County, FY 2008 | Nov. 25, 2009 | \$39,998 | 0 | 0 | 0 |
| 10-3-0039 | Dassel, City of, FY 2008 | Nov. 25, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0043 | Elko Band Council, FY 2007 | Dec. 15, 2009 | 0 | \$88,084 | 0 | 0 |
| 10-3-0044 | Chugach Regional Resource Commission, FY 2004 | Dec. 15, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0045 | Yurok Tribe, FY 2007 | Dec. 15, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0046 | National Safety Council, FY 2008 | Dec. 15, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0048 | Alturas, City of, FY 2008 | Dec. 17, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0050 | Torres Martinez Desert Cahuilla Indians, FY 2007 | Dec. 17, 2009 | 0 | 7,029 | 0 | 0 |
| 10-3-0051 | Cahuilla Band of Indians, FY 2005 | Dec. 18, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0052 | Cahuilla Band of Indians, FY 2006 | Dec. 18, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0053 | Nooksack Indian Tribe, FY 2007 | Dec. 31, 2009 | 0 | 0 | 0 | 0 |
| 10-3-0056 | Vallejo, City of, FY 2004 | Jan. 28, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0060 | Lennox, City of, South Dakota, FY 2005 | Feb. 04, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0061 | La Jolla Band of Luiseno Indians, FY 2007 | Feb. 05, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0062 | Pit River Tribe, FY 2007 | Feb. 12, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0063 | Solana Beach, City of, FY 2007 | Feb. 12, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0064 | Lone Pine Paiute-Shosone Reservation, FY 2007 | Feb. 12, 2010 | 0 | 100,543 | 0 | 0 |
| 10-3-0068 | Pit River Tribe, FY 2008 | Feb. 19, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0069 | Woods Hole Oceanographic Institution, FY 2008 | Feb. 19, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0072 | Georgia Tech Research Corporation, FY 2008 | Feb. 26, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0073 | Torres Martinez Desert Cahuilla Indians, FY 2008 | Feb. 26, 2010 | 0 | 26,442 | 0 | 0 |
| 10-3-0074 | Yurok Tribe, FY 2008 | Feb. 26, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0076 | Puerto Rico Commonwealth of Environmental Quality Board, FY 2008 | Mar. 08, 2010 | 6,080 | 0 | 0 | 0 |
| 10-3-0083 | Colorado, State of, FY 2009 | Mar. 24, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0084 | Utah, State of, FY 2009 | Mar. 24, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0085 | Te-Moak Tribe Western Shoshone/Battle Mountain Band Council, FY 2008 | Mar. 24, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0089 | Gas Technology Institute, FY 2006 | Mar. 31, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0090 | Batelle Memorial Institute, FY 2008 | Mar. 31, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0091 | Blackfeet Tribe of the Blackfeet Indian Reservation, FY 2006 | Mar. 31, 2010 | 0 | 0 | 0 | 0 |
| 10-3-0092 | Montana, State of, FYs 2008 and 2009 | Mar. 31, 2010 | 0 | 0 | 0 | 0 |
| | TOTAL SINGLE AUDIT REPORTS = 51 | | \$47,813 | \$222,098 | \$0 | \$0 |
| CONTRACT REPORTS | | | | | | |
| 10-4-0070 | Army Creek Landfill CERCLA Claim No. 3, New Castle, Delaware | Feb. 24, 2010 | 0 | 0 | 0 | 0 |
| | TOTAL CONTRACT REPORTS = 1 | | \$0 | \$0 | \$0 | \$0 |
| FINANCIAL STATEMENT REPORTS | | | | | | |
| 10-1-0029 | Audit of 2009 and 2008 (Restated) Consolidated Financial Statements | Nov. 16, 2009 | 0 | 0 | 0 | \$3,742,059 |
| 10-1-0087 | FY 2009 FIFRA Financial Statements | Mar. 30, 2010 | 0 | 0 | 0 | 0 |
| 10-1-0088 | FY 2009 PRIA Financial Statements | Mar. 30, 2010 | 0 | 0 | 0 | 0 |
| | TOTAL FINANCIAL STATEMENT REPORTS = 3 | | \$0 | \$0 | \$0 | \$3,742,059 |
| AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 REPORTS | | | | | | |
| 10-R-0020 | Recipient Reporting Under the Recovery Act | Oct. 29, 2009 | 0 | 0 | 0 | 0 |
| 10-R-0049 | Drinking Water State Revolving Fund Deadline of February 17, 2010 | Dec. 17, 2009 | 0 | 0 | 0 | 0 |
| 10-R-0057 | Guidance for Recovery Act and Future Green Reserve Projects | Feb. 01, 2010 | 0 | 0 | 0 | 0 |
| 10-R-0079 | Site Inspection of Water Distribution System, Village of Buckeye Lake, Ohio | Mar. 10, 2010 | 0 | 0 | 0 | 0 |
| 10-R-0080 | Site Inspection of Water Main Project, Manchester, New Hampshire | Mar. 17, 2010 | 0 | 0 | 0 | 0 |
| 10-R-0082 | Competition for National Clean Diesel Funding Assistance Program Grants | Mar. 23, 2010 | 0 | 0 | 0 | 0 |
| | TOTAL AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 REPORTS = 6 | | \$0 | \$0 | \$0 | \$0 |
| OTHER REPORTS | | | | | | |
| 10-N-0018 | Compendium of Unimplemented Recommendations as of 9/30/2009 | Oct. 28, 2009 | 0 | 0 | 0 | 0 |
| 10-N-0019 | Coal Ash Rulemaking | Nov. 02, 2009 | 0 | 0 | 0 | 0 |
| | TOTAL OTHER REPORTS = 2 | | \$0 | \$0 | \$0 | \$0 |
| | TOTAL REPORTS ISSUED = 92 | | \$1,114,244 | \$4,948,038 | \$0 | \$6,881,059 |

Appendix 2 - Reports Issued Without Management Decisions

For Reporting Period Ended March 31, 2010

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 a management decision has not been made, the Agency's desired timetable for achieving a management decision, and the OIG follow-up status as of March 31, 2010.

Office of Air and Radiation

Report No. 2004-P-00033, Effectiveness of Strategies to Reduce Ozone Precursors, September 29, 2004

Summary: Our analysis of EPA emissions data for "serious," "severe," and "extreme" ozone nonattainment areas indicated that some major metropolitan areas may not have achieved the required 3 percent annual emission reductions in ozone precursor emissions. While EPA air trends reports have emphasized that ozone levels are declining nationally and regionally, only 5 of 25 nonattainment areas designated serious to extreme had substantial downward trends. EPA provided an action plan to the OIG that provided a partial list of actions planned, and we closed 8 of the 25 recommendations. We believed we may be able to close six recommendations once the final Milestone Compliance Demonstration rule was promulgated. However, in May 2006, EPA told us the Agency had decided not to issue the rule; it instead planned to issue guidance that EPA regions could share with States. We did not agree that guidance is an acceptable alternative. As of September 12, 2008, the Agency had not agreed with the other recommendations and had not submitted a complete response that addresses all the recommendations in the report. We will continue to follow up on the Agency's actions.

Agency Explanation: EPA recently issued a lower ozone standard and is completing reconsideration of that standard. Based on the resulting classifications of ozone attainment and nonattainment areas, EPA will revisit the effectiveness of the OIG's recommendations for Milestone Compliance Demonstration guidance. Resolution expected by December 2010.

OIG Follow-up Status: Incomplete response received

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. A U.S. District Court vacated the rule in February 2008. EPA appealed the court's decision in March 2008 but subsequently decided to develop a MACT standard for air toxics emissions from power plants under the Clean Air Act Section 112. In December 2009, EPA approved an Information Collection Request requiring all U.S. power plants with coal-or oil-fired electric generating units to submit air toxics emissions data. EPA will use this data to develop a MACT standard for mercury emissions from power plants. Since EPA is now developing a mercury MACT rule, the Agency needs to provide the OIG with an action plan.

Agency Explanation: EPA is currently considering the next steps after court rulings on the Clean Air Interstate Rule. The Agency intends to use a Utility MACT Rule and also revise its corrective action plan. Estimated completion date for the revisions is July 2010.

OIG Follow-up Status: Incomplete response received

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 decisionmaking processes. Given the uncertainties associated with National Emissions Inventory data, EPA could over- or underestimate the public health risk from MACT sources of emissions. Overstating risk could result in EPA placing regulations on industries 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 to ensure the quality of the emission database and is presenting the OIG the alternative approach – continuing with the current program using voluntarily submitted data and analyzing those results to determine whether further improvements are needed. The Agency is providing the OIG a revised action plan. Estimate completion by May 2010.

OIG Follow-up Status: Resolution under negotiation in Headquarters

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. In its 90 day response, EPA said it would describe the legal analyses of stakeholders regarding this issue and make it available to Congress through the preamble to a proposed rule for new Category 3 marine diesel engines. However, describing the legal analyses of others does not meet the intent of our recommendation. The intent of our recommendation was that EPA would 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. This assessment should provide a clear statement as to whether EPA has authority to regulate air emissions from engines on foreign-flagged vessels in U.S. ports. We consider this recommendation open and unresolved.

Agency Explanation: The Office of Air and Radiation has sent a memorandum (dated March 19, 2010) to the OIG outlining actions that will address all open corrective actions. EPA is leaving the first recommendation open for now pending further discussion with the OIG.

OIG Follow-up Status: Proposed response received awaiting final determination

Report No. 09-P-0151, EPA Does Not Provide Oversight of Radon Testing Accuracy and Reliability, May 12, 2009

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 EPA disclose that while radon testing is recommended, EPA cannot provide assurance that commercially available radon testing devices or testing laboratories are accurate and reliable. EPA generally agreed with this recommendation and stated that it will review and revise both its Web-based and printed public materials, as appropriate. However, the Agency did not provide information on how it intends to characterize the accuracy and reliability of radon testing in its public documents, and more information is needed.

Agency Explanation: The Office of Air and Radiation continues to negotiate with the OIG on the recommendation and is preparing a memorandum to outline actions and proposed dates for addressing the recommendation.

OIG Follow-up Status: Incomplete response received

Office of Administration and Resources Management**Report No. 09-P-0206, EPA's Human Resources System Shared Service Centers, August 11, 2009**

We reported that EPA's shared service center initiative lacked the necessary management controls to achieve efficiency and effectiveness. Our draft report noted EPA lacked necessary cost analysis and OMB approval to upgrade PeoplePlus with an automated workflow feature in support of the establishment of the EPA shared service centers. Subsequent to the release of our draft report in April 2009, EPA changed its approach to achieving anticipated efficiencies at its shared service centers and has determined that it is not cost effective to update PeoplePlus. EPA now looks to find a certified line-of-business provider that can provide the required human resources information technology support. Our final report included recommendations that EPA have the appropriate analysis, actions, and approvals in place to ensure the effective management of the Agency's human resources function.

Agency Explanation: EPA's Office of the Chief Financial Officer and Office of Administration and Resources Management have agreed to and begun system fit/gap sessions with the U.S. Department of the Interior's National Business Center to arrive at the baseline cost estimate, and time requirements for a potential human resources line-of-business migration. It is anticipated that these sessions will run to June 2010.

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 required immediate attention.

Agency Explanation: The Small Business Administration did not receive the contracting officer's request for size determination and documentation which was mailed to them in April 2009. The Office of Acquisition Management will schedule a meeting with the OIG for the week of March 29, 2010, to discuss disposition of this audit. After discussion with OIG, if required to do so, the Office of Acquisition Management will resubmit the size determination request to the Small Business Administration and will follow the Small Business Administration's recommendation. Expected resolution date will be determined after the Office of Acquisition Management meets 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. 2007-1-00061, 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 totals \$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 contracts/subcontracts that do not have indirect ceiling rates and are impacted by the questioned indirect rates. EPA's share of questioned indirect costs totals \$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 EPA 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. 2007-4-00079, 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 that 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. 08-1-0131, 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 totals \$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 totals \$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. 08-4-0208, 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 that 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. 09-1-0034, 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. 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. 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: The Grants and Interagency Agreement Management Division (GIAMD) has been working extensively to review the reconstructed records submitted by the Coordinating Committee for Automotive Repair to determine if there is significant documentation to support the costs charged to the EPA assistance agreements. The records are lacking a significant amount of timecards to support the personnel costs that are charged to the grant. However, GIAMD is working to determine if the other documentation provided, such as quarterly reports and notes from office meetings that outline staff duties, will offer sufficient support for some of the personnel costs. Expect resolution by May 31, 2010.

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 met with Office of General Counsel on January 22 to discuss our review of the audit and options for resolution. Although we have made some progress, we are continuing to work toward an agreement on which costs are unallowable. We are reviewing submitted procurement actions and costs documentation. Our next meeting will be in late April to discuss the resolutions agreed upon in our Office of General Counsel meeting and next steps. Further meetings with the Office of General Counsel and the GIAMD director are required to evaluate the recommendation to count membership fees as program income before a final determination can be issued. Expect resolution by October 31, 2010.

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: GIAMD sent the National Indian Health Board a letter on December 22, 2009, requesting supporting documentation that accounts for the \$31,960 of expended funds and a Statement of Functional Expenses. We received a response from the board on February 2, 2010, stating that they are unable to provide us with the requested supporting documentation at this time due to changes in the board's accounting software and electronic files that occurred in 2003 and when their office moved from Denver, Colorado, to Washington, DC, and they no longer employ staff who worked for the organization in 2002. The board indicated in its response that it would like to assist us, but documentation is quite limited. The board may have to remit a partial or full payment back to EPA in the amount of \$31,960 reportedly charged to the EPA Grant Number 827909. Expect resolution by June 30, 2010.

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 by 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: The University sent the Office of Grants and Debarment (OGD) an e-mail on February 11, 2010, that includes notification that it is still compiling the additional documentation and a copy of its amended policies on Time & Effort and compensation that were developed as part of their responses to the adverse OMB Circular A-133 audit findings. OGD followed up with the University by e-mail on March 7, 2010, requesting the status of the additional documentation to substantiate the questioned cost. OGD received e-mail notification from the University on March 18, 2010, stating that it has compiled the additional documentation that will substantiate the questioned cost and will submit them by March 26, 2010. GIAMD may disallow the costs attributable to the EPA assistance agreements (\$148,968 + \$230,517) if the additional documentation does not substantiate these questioned costs. Expect resolution by April 30, 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: In recent months we held several meetings with the OIG, the Office General Counsel, the association, and EPA's Assistant Administrator for Administration and Resources Management. Based on these meetings, GIAMD reached decisions on the remaining issues that needed to be addressed, i.e., issues related to the association's fringe and indirect cost rates during the audit period, allowability of contract costs incurred by the association, and single audits that were not submitted by the association. We received revised Financial Status Reports from the Association reflecting disallowances of costs; prepared the draft final determination letter; obtained approval of two deviations from Title 40, Code of Federal Regulations, Parts 30.5 and 30.26(a) to authorize GIAMD's final determinations on the contract costs and single audits; received the Office of General Counsel's concurrence on the final determination letter; and provided the draft final determination letter to OIG for concurrence on January 26, 2009. However, on February 10, 2010, OIG notified us it does not agree with GIAMD's proposed final determination to allow the costs (\$653,038) incurred under a subagreement by the American Clean Water Foundation for circuit rider activities. OIG agreed that the transaction was a subaward rather than a contract, but disagreed with allowing the costs because the American Clean Water Foundation did not conduct a required single audit and the Foundation's financial and program management systems did not comply with standards. On February 5, 2010, GIAMD and the Office of General Counsel held a conference call with the Association in which we outlined the concerns about the subaward costs of \$653,038. The Association said it has records of its own to substantiate the costs charged by the Foundation, and GIAMD said it would make arrangements to visit the Association's offices and review those records. Representatives from EPA's compliance team and Grants Management Branch A visited the Association on February 25, 2010, and obtained some but not all of the required documentation to support the costs charged by foundation. A follow-up visit to association for additional documentation was scheduled but has been rescheduled several times. We have another onsite visit to the foundation scheduled for March 24, 2010. When we get the information we will need to evaluate it, share it with the OIG, and prepare a revised final determination letter. In addition, we will need to obtain approval of another deviation waiving the single audit requirements for the Foundation. Expect resolution by May 31, 2010.

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 when negotiating the indirect cost rate.

Agency Explanation: OGD completed the final determination letter and sent it to the OIG for concurrence, and it was sent back with a few comments. OGD is working with the OIG to resolve the audit. Expect resolution by May 1, 2010.

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 by 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: The University sent OGD an e-mail on February 11, 2010, that includes notification that it is still compiling the additional documentation and a copy of its amended policies on Time & Effort and compensation that were developed as part of its responses to the adverse OMB Circular A-133 audit findings. OGD followed up with the University by e-mail on March 7, 2010, requesting the status of the additional documentation to substantiate the questioned cost. OGD received e-mail notification from the University on March 18, 2010, stating that it has compiled the additional documentation that will substantiate the questioned costs and will submit them by March 26, 2010. GIAMD may disallow the costs attributable to the EPA assistance agreements (\$148,968 + \$230,517) if the additional documentation does not substantiate these questioned costs. Expect resolution by April 30, 2010.

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 controls 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 & 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. OGD will contact recipient for additional information to support the questioned costs of \$90,973. The estimated time for audit resolution is June 30, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0213, National Congress of American Indians – FY 2007, August 17, 2009

Summary: Employees and supervisors did not always sign timesheets. As a result, the single auditor questioned labor charged of \$10,965 as unsupported, of which \$5,467 was for EPA grants. The recipient also did not submit its indirect cost rate proposal within the required timeframe. Additionally, EPA's special grant conditions state that the recipient is not allowed to claim indirect costs unless its indirect cost rate agreement has been sent to the cognizant agency for approval. As a result, we questioned indirect costs of \$25,155 as unsupported.

Agency Explanation: OGD has requested some additional information from the recipient. The final determination letter is expected on May 15, 2010.

OIG Follow-up Status: No response

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 OIG issued a memo to the Office of Enforcement and Compliance Assurance on January 20, 2010, which requested this office to change the designation of recommendation 2-2 in the Management Audit Tracking System to "unresolved" and include it in the list of recommendations unresolved after a year. The OIG indicated it would pursue this matter through the formal EPA audit resolution process. Audit resolution is pending.

OIG Follow-up Status: Referred to Audit Resolution Board

Office of Environmental Information

Report No. 09-P-0240, Information Security Vulnerability Management Program, September 21, 2009

Summary: EPA implemented 56 percent (15 of 27) of the information security audit recommendations we reviewed. EPA's lack of progress on four key audit recommendations we made in 2004 and 2005 inhibits EPA from providing an Agency-wide process for security monitoring of its computer network. EPA has not established an Agency-wide network security monitoring program because EPA did not take alternative action when this project ran into significant delays. We recommended that EPA create Plans of Action and Milestones for each unimplemented audit recommendation, update EPA's Management Audit Tracking System, provide EPA program and regional offices with an alternative solution for vulnerability management, establish a workgroup of program and regional EPA information technology staff to solicit input on training needs, and issue an updated memorandum discussing guidance and requirements. The Agency agreed with all of our findings and recommendations.

Agency Explanation: The Office of Environmental Information provided a new corrective action plan to the OIG on March 15, 2010. OIG has not yet approved the plan.

OIG Follow-up Status: Incomplete response received

Region 1- Regional Administrator

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: The resolution of this audit is rolled into discussion of resolution of the FY 2008 audit, since issues carry over. Expect resolution by September 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: The resolution of this audit is rolled into discussion of resolution of the FY 2008 audit, since issues carry over. Expect resolution by September 2010.

OIG Follow-up Status: No response

Report No. 09-3-0250, Cumberland, Town of – FY 2004, September 29, 2009

Summary: The assistant finance director has certain job responsibilities that resulted in the lack of segregation of duties. The Town and school department did not have an accounting system in place to properly maintain and account for their governmental fund fixed assets. Further, the Town did not have an accounting system to account for the water fund's fixed assets and related depreciation, did not obtain copies of certified payrolls from the company

that constructed the water tanks funded by this federal program, and did not submit the required reports and forms identified above by the required due dates.

Agency Explanation: The grantee provided an acceptable response on March 30, 2010. The final determination letter will be completed by April 12, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0191, New Hampshire, State of – FY 2008, August 12, 2009

Summary: Administrative and direct program cost drawdowns were not in accordance with the agreement entered between the Secretary of the Treasury, U.S. Department of the Treasury, and the State. Also, costs that met the definition of indirect costs were charged directly to the grant and were not included in the indirect cost rate.

Agency Explanation: The State continues to work with Treasury to resolve. Expect resolution by May 2010.

OIG Follow-up Status: No response

Region 2 - Regional Administrator

Report No. 09-3-0239, Puerto Rico, University of – FY 2008, September 17, 2009

Summary: Time & Effort reports were never submitted and several Time & Effort reports were submitted late. University officials and private investigators are not being held accountable for the missing reports. There is a known amount of \$15,317 in questioned costs, of which \$10,439 are direct funds from EPA.

Agency Explanation: Region 2 currently awaits detailed documentation from the grantee to support the \$10,439 in questioned unsupported costs. Expected resolution date is June 30, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0255, Puerto Rico, Department of Agriculture – FY 2004, September 30, 2009

Summary: For the EPA pesticide grants, the Department did not have supporting documentation to justify services and purchases, contracts, invoices, payment vouchers, a proposal evaluated, and a payroll register. The auditors questioned \$5,376 as unsupported costs.

Agency Explanation: Region 2 currently awaits specific documentation from the grantee to support the \$5,376 in questioned unsupported costs. Expect resolution by June 30, 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 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 needs to improve its subrecipient monitoring program.

Agency Explanation: In December 2009, the OIG determined that Region 3's proposed final determination letter was incomplete for several recommendations. In January 2010, Region 3 submitted a request for deviation from Headquarters and is waiting to hear back. Region 3 expects to have a revised final determination letter to the OIG by April 30, 2010.

OIG Follow-up Status: No response

Report No. 09-4-0135, Tetra Tech EM Inc. Base Year Labor Verification Review, April 3, 2009

Summary: Based on our review, matters came to our attention that caused us to believe that Tetra Tech overbilled EPA \$253,089 for labor charges (including subcontract labor).

Agency Explanation: Region 3 submitted a proposed final determination memo to the OIG on July 6, 2009, and the OIG requested more information on September 24, 2009. Region 3 submitted a revised response to the OIG with attachments on March 22, 2010, and is awaiting a response.

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

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 had completed all work under the agreements and had achieved the intended results of the agreements.

Agency Explanation: We were able to utilize a federal contract and provide Tribe staff (programmatic and financial) with comprehensive grants management training that will hopefully provide the general understanding to everybody involved with EPA funds management. The next step is to build off of this and work with the Tribe to implement procedures/controls to assure that the compliance requirements are consistently met. We expect resolution shortly after our work the week of April 19, 2010.

OIG Follow-up Status: No response

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

Summary: 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: We continue to work with the Tribe to address the deficiencies in its management and accounting systems. We have a series of meetings set up with the Tribe's Environmental and Finance Departments over the next 5 months to work with the Tribe to identify and overcome its performance limiting factors through adherence to existing policies and procedures and/or development of new policies and procedures that better serve its (and our) needs. Once these new practices are fully implemented and tested, we will recommend that the audit be closed. Expect resolution by October 31, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0252, Oglala Sioux Tribe - FY 2005, September 29, 2009

Summary: The single auditor's findings indicate that the Tribe may not be able to support the costs claimed under EPA grants. As a result, we are questioning the costs claimed during 2005 of \$307,323 as being unsupported.

Agency Explanation: We continue to work with the Tribe to address the deficiencies in its management and accounting systems. We have a series of meetings set up with the Tribe's Environmental and Finance Departments over the next 5 months to work with the Tribe to identify and overcome its performance limiting factors through adherence to existing policies and procedures and/or development of new policies and procedures that better serve its (and our) needs. Once these new practices are fully implemented and tested, we will recommend that the audit be closed. Expect resolution by October 31, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0253, Oglala Sioux Tribe - FY 2006, September 30, 2009

Summary: The single auditor's findings indicate that the Tribe may not be able to support the costs claimed under EPA grants. As a result, we are questioning the costs claimed during 2006 of \$530,042 as being unsupported.

Agency Explanation: We continue to work with the Tribe to address the deficiencies in its management and accounting systems. We have a series of meetings set up with the Tribe's Environmental and Finance Departments over the next 5 months to work with the Tribe to identify and overcome its performance limiting factors through adherence to existing policies and procedures and/or development of new policies and procedures that better serve its (and our) needs. Once these new practices are fully implemented and tested, we will recommend that the audit be closed. Expect resolution by October 31, 2010.

OIG Follow-up Status: No response

Region 9 - Regional Administrator**Report No. 09-3-0159, Cahto Tribe of the Laytonville Rancheria – FY 2006, June 8, 2009**

Summary: The Tribe did not perform the single audit within the required timeframe. Further, the Tribe did not secure an approved indirect cost proposal for FY 2006. Also, documentation was not available, and the Tribe's policies and procedures need to be updated. We questioned funds of \$142,465.

Agency Explanation: As of March 26, 2010, a final determination letter has been routed for signature that addresses all of the complex issues raised by the single audit. Extra time was required to review documentation provided by the recipient that adequately addressed EPA's concerns and the "high risk" rating recommended by the OIG. The final determination letter should be issued no later than May 1, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0218, Northern Mariana Islands, Commonwealth of – FY 2007, August 24, 2009

Summary: Of 35 nonpayroll expenditures of the Environmental Protection Consolidated Grants program tested involving \$320,208, there was no indication that price or rate quotations were obtained from an adequate number of qualified sources for six items that qualified under small purchase procedures. The single auditors questioned \$17,027. Also, property records had incomplete information, reporting of accumulated expenditures was inconsistent, the policy for competitive procurement for items less than \$2,500 did not conform to federal requirements, and procurement procedures did not include procedures related to airfare.

Agency Explanation: The project officer and accounting staff have been diligently reviewing documentation provided by the recipient to adequately address all of the single audit's complex issues. It has taken extra time given competing priorities, geographic distance, volume of support documentation, and the need to perform a thorough review. A final determination letter should be routed for signature no later than May 1, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0238, Guam, Government of - FY 2008, September 17, 2009

Summary: The government had inadequate internal controls over procurement. Records in the procurement file were not sufficient, and the single auditor questioned \$109,487 of unsupported procurement transactions. Also, the government did not submit the required reports for FY 2008, which precluded testing reported amounts against underlying accounting records.

Agency Explanation: The project officer and accounting staff have been diligently securing and reviewing documentation provided by the recipient to adequately address all of the single audit's complex issues. It has taken extra time given competing priorities, geographic distance, volume of support documentation, and the need to perform a thorough review. A final determination letter should be routed for signature no later than May 1, 2010.

OIG Follow-up Status: No response

Report No. 09-3-0248, Northern Mariana Islands, Commonwealth of - FY 2008, September 24, 2009

Summary: We questioned \$19,501 of direct costs as unsupported. Another \$78,763 in unsupported costs was noted in relation to indirect cost rates. The auditee's noncompliance with procurement regulations resulted in \$56,969 in ineligible costs. Because of a lack of compliance in relation to accounting for program income, \$11,685 in ineligible costs was noted. Property records were not reconciled and accumulated expenditures were not properly recorded.

Agency Explanation: The project officer and accounting staff have been diligently securing and reviewing documentation provided by the recipient to adequately address all of the single audit's complex issues. It has taken extra time given competing priorities, geographic distance, volume of support documentation, and the need to perform a thorough review. A final determination letter should be routed for signature no later than May 1, 2010.

OIG Follow-up Status: No response

**Total reports issued before reporting period for which
no management decision has been made as of March 31, 2010 = 53**

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/2010/20100428-10-N-0114.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
5 Post Office Square, Suite 100 (OIG15-1)
Boston, MA 02109-3912
Audit/Evaluation: (617) 918-1470
Investigations: (617) 918-1466

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

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e-mail: OIG_Hotline@epa.gov

write: EPA Inspector General Hotline 2431M
1200 Pennsylvania Avenue NW
Washington DC 20460

fax: 202-566-1810

phone: 1-888-546-8740



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

