



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 4  
ATLANTA FEDERAL CENTER  
61 FORSYTH STREET  
ATLANTA, GEORGIA 30303-8960

AUG 17 2012

**MEMORANDUM**

**SUBJECT:** Draft Management Decision regarding Final Audit Report No. 12-4-0499, "Costs Claimed by the North Carolina Rural Economic Development Center, Inc., Under EPA Grant No. X96418405," dated May 23, 2012

**FROM:**   
Stanley Grayer, Chief  
Grants and IA Section

**TO:** Robert Adachi, Director of Forensic Audits  
EPA - Office of Inspector General

On May 23, 2012, the Office of Inspector General of the U.S. Environment Protection Agency issued the above referenced final audit report. In this report the OIG questioned \$1,192,500 in costs and recommended EPA Region 4 recover all grant funds.

Attached is Region 4 response to the OIG recommendation of which I am in concurrence. Based on the documentation submitted and corrective actions taken by the North Carolina Rural Economic Development Center in regard to the audit recommendation, EPA Region 4 proposes to allow the grantee to retain the federal share of all questioned costs.

Upon concurrence with the proposed decision, this will represent Region 4's Final Management Decision on this matter. If you have any further questions regarding this response, please contact Dorothy Rayfield, Chief of the Grants, Finance, and Cost Recovery Branch at 404 562-9278.

Attachments

## AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

EPA Region 4 proposes a Management Decision to allow the grantee to retain the federal share of the questioned costs. This is based on the documentation submitted since the release of the final report and the corrective action taken by the North Carolina Rural Economic Development Center (NCREDC) in regards to the audit recommendations.

The OIG Report stated that the NCREDC did not comply with 2 CFR 230 with respect to financial management. In particular the NCREDC:

1. Did not properly allocate direct costs between state and federal funding sources;
2. Submitted requests for reimbursement that were not supported by its accounting records; and,
3. Claimed indirect costs without an approved indirect cost rate.

OIG Recommendation:

Disallow all costs associated with Grant No. X96418405 and recover \$1,192,500 of costs paid to the NCREDC.

Corrective Actions Taken:

1. Completed December 1, 2009: As a result of an October 5, 2009, conference call with John Trefry, and in an email to John Trefry and Philip Cleveland on October 26, 2009, Region 4 agreed to reopen the grant and amended it to reflect the full project cost minus indirect costs, of which the EPA's share was \$1,192,500. Additionally, the recipient submitted a revised budget eliminating the cost allocated for indirect charges by reallocating the cost in other budget categories (direct) and provided supporting documentation and invoices. The grant was amended on December 1, 2009. The explanation of changes stated, "The grant is modified to show total eligible project costs and exclude indirect costs as a result of an audit resolution." The revised budget for expenses as reported in Dec. 2009 is summarized in Exhibits A and B. As reported in 2009, indirect costs of \$178,556 have been subtracted from the total costs for the grant. Total project costs and costs allocated to non EPA sources were both decreased by \$178,556, the amount of questioned indirect costs. In Exhibits A and B, the EPA Federal funding remains the same totaling \$1,192,500.

Following the approval of the December 2009 budget amendment, the NCREDC consulted with its external auditors and adjusted its books to account for the disallowance of the indirect cost recovery claim. This action is discussed in more detail in Exhibit D. During its fiscal year ending June 30, 2010, the NCREDC reclassified \$178,556 of its net assets from the unrestricted category to the temporarily restricted category to reflect the revised cost allocation. The NCREDC received an unqualified opinion on its audited financial and compliance report for the fiscal year ended June 30, 2010, and for the years ended June 30, 2005 and 2006 when the EPA funding was expended. See Exhibit E and F for excerpts from NCREDC's financial and compliance audits.

We believe that the recipient's corrective action addresses the \$178,556 in the budget revision.

2. Completed December 1, 2009: Region 4 designated the recipient, NCREDC, as a "high risk" grantee in accordance with 40 CFR 30.14 and will impose a special grant condition on all future awards.
3. Completed August 1, 2012: Region 4 requested the recipient to submit the methodology of full accounting of the allocation of costs among state and federal funding sources for the full project cost. Exhibit B (Allocation of Costs to EPA Grant) outlines the NCREDC's allocation of costs to the EPA grant as originally reported, and as revised in December 2009 following a budget revision. We have reviewed the revised allocation of expenditures and have determined that costs charged to the EPA grant were reasonable, allowable, supported by appropriate documentation and allocable to EPA in accordance with the Code of Federal Regulations (CFR), specifically 2 CFR Part 230.

During the corrective action process, the NCREDC listed every invoice paid to the consulting engineers for this project and noted the purpose and tasks covered by each. (See Exhibit A - Consultant Invoice Summary) Based on the review of these invoices and a comparison of the nature of the costs with the EPA grant documents and the consulting engineer contracts, the NCREDC has determined the eligibility of each invoice for funding by all project funders. (See Exhibit D - Additional Explanations - for a description of the nature of services provided by each of the consulting engineers, and Exhibit C - Copies of Paid Invoices.) Following the determination of the funding eligibility, costs for data collection and analysis totaling \$1,192,500 were allocated to the EPA grant, while the remaining consultant costs were allocated to state funding sources. Thus, the NCREDC has submitted during the corrective action process, an accounting for the allocation of total project costs among the state and federal funding sources available for the project in accordance with the applicable Federal cost principles. With the NCREDC's submittals, the Region has determined the reasonableness, allocability and allowability of costs in accordance with the provision of the applicable federal cost principles.