



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Attestation Report

Canaan Valley Institute, Inc., Incurred Cost Audit of Five EPA Cooperative Agreements

Report No. 08-4-0156

May 19, 2008

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Abbreviations

Agreements	X799368208, X83274301, X83251701, X799368209 and X797339001
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FCTR	Federal Cash Transactions Report/SF 272
FFS	Fee-for-Service
FSR	Financial Status Report
FY	Fiscal Year
IPA	Intergovernmental Personnel Act
NRCS	Natural Resources Conservation Service
OEI	Office of Environmental Information
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recipient	Canaan Valley Institute, Inc.
USDA	U.S. Department of Agriculture



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted this examination to determine whether (a) the reported incurred costs for five U.S. Environmental Protection Agency (EPA) cooperative agreements were reasonable, allocable, and allowable in accordance with the terms and conditions of the agreements and applicable regulations; and (b) Canaan Valley Institute (recipient) achieved the intended results of the agreements.

Background

EPA awarded five cooperative agreements to the recipient to provide further enhancements to the Mid-Atlantic Highland's environment and economic sustainability, and continued support for the Highland action plan.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2008/20080519-08-4-0156.pdf

Canaan Valley Institute, Inc., Incurred Cost Audit of Five EPA Cooperative Agreements

What We Found

In our opinion, with the exception of the questioned costs discussed below, the outlays reported in the recipient's Federal Cash Transaction Reports and Financial Status Reports present fairly, in all material respects, the allowable outlays incurred in accordance with the terms and conditions of the agreements and applicable laws and regulations. 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:

- Claimed indirect costs without approved indirect rates;
- Did not credit back to the agreements all program income;
- Did not demonstrate that it performed cost analysis of contracts;
- Reported costs for services outside of the scope of one agreement;
- Did not comply with terms and conditions of contracts; and
- Used EPA funds to match another federally-funded cooperative agreement.

The recipient met the requirements of its assistance agreements. However, the recipient could improve its subrecipient monitoring program.

What We Recommend

We recommend that EPA recover questioned outlays of \$3,218,661 unless the recipient provides sufficient documentation to support the related reported costs in accordance with Federal regulations. EPA should require the recipient to prepare and submit its indirect cost rate proposals for negotiation using the accrual method, and disclosing the direct allocation methodology. The recipient should credit \$17,266 in program income to the agreements. The recipient needs to ensure that cost and pricing analyses are performed and documented as part of its contract procurement process.

We recommend EPA direct the recipient to revise its subrecipient monitoring program to require technical reports from its subrecipients, in addition to financial reports that are already required. The recipient should also time its subrecipient payments to ensure the funds are expended timely by its subrecipients.



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

OFFICE OF
INSPECTOR GENERAL

May 19, 2008

MEMORANDUM

SUBJECT: Canaan Valley Institute, Inc.,
Incurred Cost Audit of Five EPA Cooperative Agreements
Report No. 08-4-0156

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: Richard Kuhlman
Director, Grants and Interagency Agreements Management Division

Donald S. Welsh
Regional Administrator, Region 3

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. EPA managers in accordance with established audit resolution procedures will make the final determination on matters in this report.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$369,957.

Action Required

In accordance with EPA Manual 2750, Chapter 3, Section 6(f), you are required to provide us your proposed management decision for resolution of the findings contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due on September 16, 2008. To expedite the resolution process, please e-mail an electronic version of your proposed management decision to kasper.janet@epa.gov.

We have no objections to the further release of this report to the public. For your convenience, this report will be available at <http://www.epa.gov/oig>. We want to express our appreciation for the cooperation and support from your staff during our review. If you have any questions, please contact Janet Kasper, Director, Assistance Agreement Audits, at (312) 886-3059.

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Chapter 1

Background

We audited five cooperative agreements (agreements) awarded to the Canaan Valley Institute, Inc. (recipient), totaling \$9,565,400. The recipient is a nonprofit organization that provides assistance to communities to improve the quality of life in their watersheds by restoring aquatic resources using cost-effective, local determined solutions. The recipient serves an area covering 79,000 square miles covering Pennsylvania, West Virginia, and parts of Maryland and Virginia that border the Blue Ridge Mountains to the east and the Ohio River to the west, known as the Mid-Atlantic Highlands. The recipient's headquarters are located in Thomas, West Virginia. The following table provides some basic information about the authorized project periods and funds awarded under each of the five agreements:

Table 1-1: Schedule of Agreement Information

Grant No.	Award Date	EPA Total Grant Award	Total Outlays	Project Period
X799368208	09/29/2004	\$1,988,200	\$1,988,200	10/01/2004 – 07/31/2006
X83274301	08/05/2005	1,686,400	1,668,889	09/01/2005 – 08/31/2007
X83251701	08/12/2005	1,936,200	993,017	04/01/2005 – 09-30/2007
X799368209	11/02/2005	1,984,000	1,984,000	11/01/2005 - 10/31/2006
X797339001	02/16/2007	1,970,600	52,318	03/01/2007 – 02/28/2009
Total		\$9,565,400	\$6,686,424	

Source: EPA assistance agreement award documents and financial status reports.

EPA awarded all five agreements under the Clean Water Act. EPA also awarded agreement X83274301 under the Clean Air Act, Safe Drinking Water Act, and the Solid Waste Disposal Act. A description of the purpose of each agreement follows:

Agreements X799368208 & X799368209: These agreements provide funding for the recipient to work with local stakeholders to support the implementation of water projects that address environmental problems in the Mid-Atlantic Highlands. The recipient focuses its resources on priority areas for stream restoration, wastewater issues, land use, source water, and flooding issues.

Agreement X83274301: This agreement provides funding to enhance the development and availability of information resources and geospatial technology. It supports local environmental decision making, restoration, and conservation planning in the Mid-Atlantic Highlands.

Agreement X83251701: This agreement provides funding to the recipient to conduct ecological prioritization, restoration, and conservation research in the Mid-Atlantic Highlands to support EPA's Restoration Plus program. The program is a collaborative research program that evaluates ecosystems restoration and management activities. It also develops methods to prioritize restoration efforts to attain long-term sustainability of restoration solutions.

Agreement X797339001: This agreement provides funding to work with community groups and other partners. The recipient provides the assistance and education needed to identify solutions to water quality issues. The recipient focuses its technical expertise on helping communities develop solutions in stream restoration and decentralized wastewater. It also uses its educational and technical assistance resources to leverage additional partnerships and funding needed for implementation.

Throughout the report we use the term questioned costs. Questioned cost are outlays that are (1) contrary to a provision of a law, regulation, agreement, or other documents governing the expenditures of funds; or (2) not supported by adequate documentation.

Chapter 2

Independent Auditor's Report

We have examined the total outlays reported by the Canaan Valley Institute, Inc. (recipient), under the EPA assistance agreements, as shown below:

Table 2-1: Total Reported Outlays

Assistance Agreement	Federal Cash Transaction Reports/Financial Status Reports		
	Date Submitted	Period Ending	Total Outlays Reported
X799368208	10/25/2006	07/31/2006	\$1,988,200
X83274301	07/24/2007	06/30/2007	1,668,889
X83251701	07/24/2007	06/30/2007	993,017
X799368209	07/24/2007	06/30/2007	1,984,000
X797339001	07/24/2007	06/30/2007	52,318
Total			\$6,686,424

Source: The total outlays reported were from the recipient's *Federal Cash Transaction Reports/Financial Status Reports*.

The recipient certified that the outlays reported on the Federal Cash Transactions Reports (FCTRs), Standard Form 272 and/or the Financial Status Reports (FSRs), Standard Form 269, were correct and for the purposes set forth in the agreements. The preparation and certification of the claims were the responsibility of the recipient. Our responsibility is to express an opinion on the reported outlays based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and the attestation standards established for the United States by the American Institute of Certified Public Accountants. We examined, on a test basis, evidence supporting the reported outlays, and performed such other procedures, as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We questioned \$3,235,927 of the \$6,686,424 in reported outlays because the recipient claimed unallowable outlays for indirect costs and contractual services and did not reduce outlays by all applicable program income. Specifically, the recipient:

- Claimed indirect costs without approved indirect rates;
- Did not credit back to the agreements all program income;
- Did not perform or document cost analysis of contracts;
- Reported costs for services outside of the scope of the agreement;
- Did not comply with terms and conditions of contracts; and,
- Used EPA funds to match another federally-funded program.

In our opinion, with the exception of the questioned outlays discussed in the preceding paragraph, the outlays reported in the *Federal Cash Transactions Report* present fairly, in all material respects, the allowable outlays incurred in accordance with the terms and conditions of the agreements and applicable laws and regulations. Details of our examination are included in the *Schedule of Reported Outlays and Results of Examination* that follows.

Janet Kasper
Office of Inspector General
U.S. Environmental Protection Agency
December 12, 2007

Chapter 3

Results of Examination - Review of Reported Costs

We questioned \$3,235,927 because the recipient claimed unallowable outlays for indirect costs, directly allocated costs, contractual services, and matching costs. The recipient did not reduce outlays for all applicable program income. The recipient's internal controls were not sufficient to ensure that reported outlays complied with Federal regulations, as required. These weaknesses and the resulting questioned costs are described in the following paragraphs. Details on the costs questioned for each agreement are included in Schedules 1 through 5.

Table 3-1: Total Reported Outlays and Questioned Costs

Assistance Agreement	Total Reported Outlays	Questioned Outlays and Adjustments	Amount Due EPA	Schedule
X799368208	\$1,988,200	\$ 826,097	\$ 826,097	1
X83274301	1,668,889	767,952	783,063	2
X83251701	993,017	437,122	436,105	3
X799368209	1,984,000	1,187,723	1,187,723	4
X797339001	52,318	17,033	14,715	5
Total	\$6,686,424	\$3,235,927	\$3,247,703	

Sources: The reported outlays shown were from the recipient's *FCTRs/FSRs*. The amounts questioned were based upon OIG analysis.

Indirect Costs

We questioned all of the recipient's indirect costs claimed, totaling \$1,696,493 and directly allocated costs of \$1,086,116 because the recipient: (1) did not submit indirect cost proposals or have indirect cost rate agreements, (2) did not properly disclose its direct allocation methods as part of its indirect cost rate proposals, and (3) used an inequitable base for allocating some of its administrative costs. In accordance with Office of Management and Budget (OMB) Circular A-122, recipients are required to submit indirect cost rate proposals annually for approval. These plans need to reflect all indirect cost methods, including direct allocation plans. All indirect costs need to be allocated on a basis that reflects the benefit received from such costs or activities. As a result, the recipient is in noncompliance with OMB Circular A-122, as well as its EPA assistance agreements.

We questioned total indirect costs of \$1,696,493 because the recipient did not submit indirect cost proposals annually or have approved indirect cost rates for the period covered by these assistance agreements. The conditions of the recipient's assistance agreements and OMB Circular A-122 require that the recipient submit indirect cost proposals to its cognizant Federal agency for approval each year. Canaan Valley Institute did not submit proposals for the period covered by the five agreements in our review. However, it continued to request reimbursement from EPA for indirect costs incurred even though it did not have approved rates.

Total indirect costs reported and questioned of \$1,696,493 are detailed by agreement below.

Table 3-2: Questioned Indirect Costs

Assistance Agreement	Reported	Questioned
X799368208	\$ 480,018	\$ 480,018
X 83274301	366,322	366,322
X83251701	244,168	244,168
X799368209	592,767	592,767
X797339001	13,218	13,218
Total	\$1,696,493	\$1,696,493

Sources: The reported outlays shown were from the recipient's *FCTRs/FSRs*. The amounts questioned were based upon OIG analysis.

The recipient did not submit annual indirect cost proposals for fiscal years (FYs) 2005, 2006, and 2007 to its cognizant agency (U.S. Department of Commerce) and did not have approved indirect cost rates for these periods. The recipient's last approved indirect cost rate was for FY 2003. The recipient submitted requests for reimbursement of indirect costs even though its assistance agreements prohibited this practice. When requesting reimbursement and reporting costs under EPA assistance agreements, Canaan Valley Institute recovered its indirect costs by accumulating and charging indirect costs monthly to these various agreements.

Four of five assistance agreements (X799368208, X83274301, X783251701, and X799368209) included conditions stating that Canaan Valley Institute must submit a proposal for indirect costs to its cognizant agency within 90 days of the effective date of award if it did not have an approved rate. Three of its assistance agreements (X783251701, X799368208, and X797339001) included a provision stating that Canaan Valley Institute could not bill for indirect costs unless it had an approved indirect cost rate agreement. OMB Circular A-122 Attachment A, paragraph E.2.c, states the recipient must submit a new indirect cost proposal within 6 months of the end of the fiscal year. The recipient claimed indirect costs regardless of agreement conditions and the requirements of OMB Circular A-122. All indirect costs claimed are therefore unallowable.

We found that, as part of its indirect cost procedures, Canaan Valley Institute used the direct allocation method for allocating several types of costs, such as telephones, general professional services, and automobile leasing and maintenance. These costs were directly allocated to various agreements and were not included as part of the recipient's indirect cost rates. OMB Circular A-122, Attachment A, Paragraphs C.1 and D.4, state these types of costs are joint costs and that joint costs are indirect costs. The recipient did not properly disclose as part of its FY 2003 indirect cost proposal that it directly allocated certain indirect costs, such as telephone charges, auto leases, and professional salaries to its assistance agreements. Therefore, all of the claimed directly allocated costs are unallowable. Canaan Valley Institute claimed \$1,086,116 for directly allocated costs, as follows:

Table 3-3: Questioned Directly Allocated Costs¹

Assistance Agreement	Fringe Benefits	Travel	Supplies	Contractual	Other	Total
X799368208	\$167,132	\$29,952	\$ 0	\$13,177	\$ 55,498	\$ 265,759
X83274301	138,617	14,706	5,269	7,188	48,654	214,434
X83251701	118,495	11,965	1,931	5,853	42,454	180,698
X799368209	263,856	33,411	6,689	15,127	103,017	422,100
X797339001	2,816	0	0	271	38	3,125
Total	\$690,916	\$90,034	\$13,889	\$41,616	\$249,661	\$1,086,116

Sources: The reported outlays shown were from the recipient's *FCTRs/FSRs*. The amounts questioned were based upon OIG analysis.

While reviewing Canaan Valley Institute's cost allocation methods, we noted that it did not comply with the requirements of OMB Circular A-122 Paragraph D.4.b. This section states that the allocation base for directly allocated costs should accurately measure the benefits provided to each award. The allocation base that the recipient used for Professional Fees-Legal, Professional Fees-Accounting, and Telephones was salaries of major agreements. A more appropriate base is salaries of all agreements, since all agreements benefited from these activities, not just major agreements. The recipient allocated other accounts using different allocation bases, but we did not have concerns with the other allocation bases.

To illustrate the effect of using major agreements as a base for allocating costs instead of all agreements, we recalculated the allocation of telephone costs for FY 2006. Canaan Valley Institute calculated and allocated \$74,485 to EPA assistance agreements for telephones. If the recipient used salaries costs of all assistance agreements as the allocation base, the amounts charged to EPA assistance agreements would decrease by \$29,481.

In a subsequent discussion with Canaan Valley Institute personnel, the personnel stated that, as a result of our review, the recipient revised the allocation method

¹ The recipient also directly allocated \$53,676 of contractual costs to several agreements as described on page 15, Procurement – Improper Contract Administration.

for the future to include salaries of all assistance agreements in the base for Professional Fees-Legal, Professional Fees-Accounting, and Telephones. We did not independently verify that this correction was made.

On November 2, 2007, U.S. Department of Commerce's Director, Grants Management Division, Office of Acquisition Management and Financial Assistance (the recipient's cognizant agency), sent a letter to Canaan Valley Institute instructing it to continue recovering indirect costs on Federal awards using actual indirect cost rates. It also required the recipient to prepare and submit an indirect cost proposal for FY 2008, but not to submit proposals for FYs 2005, 2006, and 2007. Any differences between the amount billed and actual indirect costs for FYs 2005, 2006, and 2007 will be recovered by including a carry-forward adjustment in calculating the FY 2008 rate. The recipient's submission was due March 31, 2008. These instructions do not comply with the conditions of EPA agreements which state that the recipient cannot bill for indirect costs unless it has a current approved indirect cost rate or has submitted proposals to its cognizant agency. Canaan Valley Institute should discontinue its practice of billing EPA for indirect costs using actual rates until the rates have been approved or the recipient has submitted a proposal to the U.S. Department of Commerce that comply with OMB Circular A-122.

Recipient's Response:

Canaan Valley Institute agreed that the last approved indirect cost rate of 31.92 percent was based on FY 2003 expenditures. The recipient also agreed that the indirect cost rates used during the audit period were based on actual expenditures for FYs 2005, 2006, and 2007 or 30.91 percent, 31.51 percent, and 31.55 percent respectively. The recipient stated it submitted an indirect cost proposal based on audited FY 2007 expenditures to its cognizant agency and provided a copy of the proposal.

Canaan Valley Institute noted in its response that the direct allocation of costs was not disclosed in its FY 2003 indirect cost proposal. The recipient stated it has addressed this omission and included an explanation of the direct allocation of costs in the FY 2007 indirect cost proposal. Canaan Valley Institute also stated that it addressed the finding on allocation of professional fees for accounting and legal and telephone expenses by allocating these expenses using a base of salary expense for all funding sources instead of salaries of major assistance agreements. This change was made beginning in FY 2008.

OIG Analysis:

We reviewed the recipient's indirect cost rate proposal and identified adjustments that are needed to properly reflect costs incurred and to meet Federal requirements. Until adequate indirect cost proposals are submitted and the U.S. Department of Commerce approves the rate, the costs remain questioned.

Canaan Valley Institute submitted an indirect cost proposal for FY 2007 to its cognizant agency. However, the recipient included adjustments in the proposal to convert accrual basis amounts to the cash basis. This is not consistent with the recipient's method of accounting and claim preparation, where the accrual method has been used. When we asked the recipient why it chose to perform this conversion, the Director for Finance and Operations said that the objective was to make the indirect cost proposal come as close as possible to amounts for indirect expenses drawn during the year. According to the recipient, the proposal was based on FY 2005, 2006, and 2007 data, and the recipient wanted the costs in the proposal to closely agree to amounts drawn during those years. The recipient also stated that its 2003 indirect cost rate proposal was prepared using the accrual basis.

The recipient should revise its submission to include only accrual basis amounts. There are no requirements in OMB Circular A-122, 40 CFR Part 30, or in the assistance agreement conditions for the use of an accounting basis other than the one on which the recipient's accounting system is maintained. Accrual basis amounts provide a better matching of expenditures to the period in which they were expended and to the period where projects benefited from the incurrence of the costs.

The recipient identified in its proposal various types of costs that are treated as direct allocations. However, the proposal did not provide any details on the elements of the allocation bases, the proposed dollar amounts, or rate calculations for directly allocated costs. OMB Circular A-122, Attachment A, paragraph E.1.f states that an indirect cost proposal is meant to include the documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs. The proposal provides the basis for the review and negotiation leading to the establishment of an organization's indirect cost rate. Canaan Valley Institute should revise its submission to include the elements of each of the cost pools for directly allocated costs, the elements of the allocation base, proposed dollar amounts, and rate calculations. Inclusion of these additional details on directly allocated costs will provide the information necessary for review and negotiation of an indirect cost rate.

Finally, Canaan Valley Institute should revise the allocation base for professional fees and telephone expenditures for all years in which the rate was in effect instead of only FY 2008 and forward. Amounts reported to EPA in the past were misstated because the recipient used an inappropriate allocation base. These previously reported amounts should be adjusted for any differences that result from changing the allocation base.

Program Income

The recipient used equipment funded 100 percent with EPA funds to generate income that should have been credited to EPA assistance agreement X83274301.

Title 40 CFR 30.24(b) and (c) state that program income earned during the project period shall be deducted from the total project or program allowable costs in determining the net allowable costs on which the Federal share of costs is based. As a result, the recipient should have credited \$17,266 in program income back to EPA.

EPA's Office of Environmental Information (OEI) awarded funding of \$215,000 to purchase an airplane, under this agreement. OEI awarded, under a prior agreement, funds of \$1.3 million for the purchase of Light Detection and Ranging equipment. During the audit period, the recipient used this equipment and billed its clients using a Fee-for-Service (FFS) type of contract. It has awarded FFS contracts valued at \$914,000. As of June 30, 2007, the recipient received revenue of \$603,221 and incurred related project costs of \$507,717, resulting in a net profit of \$95,504. The recipient did credit the agreement for \$78,238 for the FFS contracts and \$6,713 for conference fees (a total credit of \$84,951). However, the recipient still needs to credit the total amount of revenue earned from the FFS contract, in the amount of \$17,266 (\$95,504 net profit less \$78,238 credit). The recipient should also credit any additional program income that will be earned through the end of the assistance agreement.

Recipient's Response:

Canaan Valley Institute did not agree that additional program income must be credited for the period ended June 30, 2007. According to the recipient, for the audit period ended June 30, 2007, it recorded a FFS net profit of \$95,504, and credited \$82,813 to the EPA grants. None of the expenses incurred while performing the FFS contracts were charged to Federal awards. According to 40 CFR 30.34(a), the recipient retains ownership of the equipment, rather than the Federal Government.

The recipient stated that under its FFS activities, it meets the requirements of 40 CFR 30.34(b) in that when it used equipment acquired with Federal funds to provide services to non-Federal outside organizations, it charged a fee comparable to those charged by private companies for the same service. The recipient credited the grants \$82,813 of program income that represented the fair market value of the services it provided less expenses incurred to provide the services.

OIG Analysis:

Title 40 CFR 30.2(x) defines program income as follows: "Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, . . ." Even though the recipient owns the equipment, if it was acquired under Federally funded projects, the income from fees is considered program income.

The regulations do not set an upper limit on the amount of fees that are considered program income. Title 40 CFR 30.34 (b) states that a recipient cannot charge a fee less than private companies charge for equivalent services. Title 40 CFR 30.34 (d) states that user charges shall be treated as program income. Therefore, all income, less associated expenses, is to be considered program income.

Based on the recipient's response and subsequent information provided by the recipient, we adjusted the amounts recorded as program income. The recipient states it credited \$82,813 back to EPA as program income. However, only \$78,238 was credited against this agreement. The remaining \$4,575 was credited against a prior OEI agreement. The recipient needs to credit the total amount of revenue earned from the FFS contract, in the amount of \$17,266 (\$95,504 less \$78,238) and revise how it calculates program income in the future.

Procurement System Did Not Comply with Standards

The recipient's procurement system did not comply with EPA's procurement standards. When applying for grant assistance, the recipient certified that it would comply with applicable requirements of Federal laws, executive orders, regulations, and policies governing each grant. The procurement standards are codified in Title 40 CFR 30.41 through 30.48. We found that the recipient:

- did not have adequate written policies and procedures for its procurement activities;
- awarded contracts without performing the cost or price analysis required by Title 40 CFR 30.45;
- awarded a contract for services outside of the scope of the agreement; and,
- reimbursed a consultant not in accordance with the terms and condition of the contract.

Procurement – Contract Management

The recipient did not have adequate written policies and procedures for its procurement activities. The recipient is required by the terms and condition of the assistance agreement to comply with the procurement provisions in Title 40 CFR 30.40 and the Appendix to Part 30.

The audit firm performing the OMB A-133, Fiscal Year 2005, annual audit reported in its management letter, dated March 21, 2007, that the recipient did not have a formal policy of monitoring compliance with provisions of various contracts during the audit period. The audit firm did state that a formal policy had been adopted as of the date of its letter, but did not express any statement on the adequacy of that policy. Our review of the recipient's policies and procedures manual identified the following missing or incomplete contract management procedures:

- Section 30.47 - Contract administration. Although the recipient maintains a data base of contracts, it does not have written procedures to ensure its contractors have performed in accordance with the terms, conditions, and specification of the contracts and to ensure adequate and timely follow-up of all purchases.
- Section 30.48 - Contract provisions. The written procedures do not include the required additional contract clauses.

As discussed below, in the *Procurement – Improper Contract Administration*, the lack of certain contract management procedures has resulted in our questioning all costs associated with the H. Ronald Preston contract, because the recipient had no documentation to show what work was performed by the contractor. Without the strengthening of the procurement policies and procedures and its effective implementation, the recipient may not be able to demonstrate that goods and services are obtained in an effective manner and in compliance with the provisions of applicable Federal regulations. As presented below, specific contract non-compliance practices have resulted in questioned contract costs reported under the five EPA assistance agreements.

Recipient's Response:

Canaan Valley Institute's policies and procedures manual and contract documents have been modified to include details necessary to ensure that goods and services are obtained in an effective manner and in compliance with the provisions of 40 CFR 30.40 through 30.48

OIG Analysis:

We reviewed the documentation the recipient provided, showing modifications to its policies and procedures manuals, as well as a contract template to be used for its procurements. The modifications made by the recipient were sufficient. The recipient fully implemented our recommendation; therefore, no further action is required.

Procurement – Cost and Pricing Analysis

We questioned contract costs of \$272,888 because the recipient did not perform or document the required cost or price analysis for sole-source contracts. EPA's procurement standards (40 CFR 30.45) require that recipients perform and document some type of cost or price analysis for its procurements. We reviewed 12 contracts and found that 9 were sole source procurements from 4 vendors. The recipient's files did not contain any evidence of a cost or price review²:

² The fourth contract was with H. Ron Preston and is discussed under Procurement – Improper Contract Administration, page 15 of report.

Table 3-4: Questioned Contract Costs – Lack of Cost or Price Analysis

Contract	X799368209	X83251701	X83274301	X799368208	Total Amount Questioned
AC Express, Inc	\$ 177	\$ 354	\$160,368		\$160,899
Wildland Hydrology	103,540				103,540
James Kreissl		2,240		\$6,209	8,449
Total	\$103,717	\$2,594	\$160,368	\$6,209	\$272,888

Sources: The contract costs were obtained from the recipient's accounting records. The amounts questioned were based upon OIG analysis.

The recipient's contract files did not have evidence that it performed the required cost or price analysis on each procurement action. During discussions with the recipient, the Director for Finance and Operations said that it did perform cost or price analysis, but until recently, its practice was not to document any cost or price analysis performed when negotiating contracts. The recipient did document the justification for selection and awarding the contracts sole-source.

Without a sufficient cost or price analysis, we cannot be assured that a fair and reasonable price was obtained. Accordingly, we question the \$272,888.

Recipient's Response:

The recipient stated that the OIG questioned contract costs, citing the lack of a cost or price analysis for the contracts. The recipient provided Cost Analysis Worksheets that were completed for each of the sole source procurements: A.C. Express, Inc., Wildland Hydrology, and James Kreissl.

OIG Analysis:

The recipient has not demonstrated that it had obtained a fair and reasonable price when procuring goods and services. It did provide a Cost and Price Analysis Worksheet for each of the agreements stating that a cost analysis was performed after the fact. However, no documentary evidence was provided to support its statements or conclusion contained in the work sheets. We contacted the recipient requesting any additional documentation that they would have to support the analysis provided. The recipient did not have any further information.

The information that the recipient provided supports more of a price analysis than a cost analysis. A price analysis is the comparison of price quotations submitted. A cost analysis is a review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

For example, the AC Express, Inc. Cost and Price Analysis Worksheet discussed rates the contractor quoted and a comparison of these rates to comparable rates provided by other contractors. This method constitutes a price analysis and not a cost analysis. Since all of the reviewed contracts were sole source procurements, the recipient is not allowed to perform a price analysis, but must prepare a cost analysis, in accordance with EPA's policy, entitled *Purchasing Supplies*,

Equipment and Services Under EPA Grants. Therefore, the recipient's analysis is not acceptable. Accordingly, our audit position remains unchanged.

Procurement – Services Outside the Scope of the Agreement

We questioned \$4,187 in reported costs allocated to EPA assistance agreement X799368208 which represents costs incurred for services outside of the scope of the assistance agreement. The recipient awarded a contract valued at \$101,757 dated June 17, 2005. The statement of work was to prepare an educational film to show how it pursued the U.S. Green Building Council's Leadership in Energy & Environmental Design construction process. The project would entail hiring a filmmaker to produce an educational documentary focused on the recipient's headquarters and land parcel. This 4-year project would show how it balanced the competing needs of construction, education, research, and land stewardship. Specific information to be included in the documentary would include the recipient's mission, staff growth, building needs, land purchase, land management plan, building design process, conceptual design, road construction, innovative utilities, environmental restoration, and landscaping.

According to the recipient's file, it was to allocate contract payments as follows:

- Department of Commerce, National Oceanic and Atmospheric Administration Assistance Agreement NA86RP0593 = 40 percent;
- Department of Commerce, National Oceanic and Atmospheric Administration Assistance Agreement NA04OAP00003 = 30 percent;
- Environmental Protection Agency Assistance Agreement X79936208 = 30 percent.

The information in the recipient procurement file did not demonstrate that these expenditures should be allocated to the assistance agreement purpose. OMB Circular A-122, Attachment A, states that costs must be incurred specifically for the award or benefit the award. The purpose of the agreement was to focus resources to the following priorities: stream restoration, wastewater issues, land use, source water and flooding. An educational film on how the recipient implemented its philosophy of green construction is not specifically related to the assistance agreement nor does it benefit the assistance agreement. We questioned the \$4,187 because the costs are not allocable to the assistance agreement.

Recipient's Response:

The recipient disagreed that the questioned costs were not allocable to the assistance agreement. According to the recipient, the documentary content specifically related to the assistance agreement and that the funds expended for the documentary would benefit the assistance agreement. The questioned expenditures were to cover 30 percent of the cost of a project to develop an educational film documentary about the green building practices used in Canaan

Valley Institute’s planned new Research and Education Complex. Among other things, the educational documentary would show how and why the recipient is using innovative wastewater treatment techniques that would prevent any untreated wastewater from directly entering stream systems. These techniques would have application across the recipient’s service area and be a major focus of its activities with wastewater treatment. Using these kinds of technologies would be critical to protecting source water in the Mid-Atlantic Highlands, as inadequately or inappropriately treated wastewater is a known contaminant of source water in the region.

OIG Analysis:

As discussed in the finding, the assistance agreement documentation, including the recipient’s work plan, does not discuss the funding of any type of environmental film. Specific projects are listed in the grant application and related budgeted amounts, but nowhere does the application mention making an educational film or any indicator that such material would be developed for training or education purposes. Neither the recipient nor EPA has provided any specific documentation showing EPA approval for the project. Neither the recipient nor EPA has provided any specifics about how this film will be used for future educational purposes, any rights that EPA may have for use of intellectual property under 40 CFR 30.36, as well as the potential impact of any program income that could result from the making of this film by the recipient. We continue to question costs of \$4,187.

Procurement – Improper Contract Administration

We have questioned costs related to the H. Ronald Preston consulting contract because the recipient did not comply with the terms and conditions of the contract, did not have support for bonuses awarded to the contractor, and did not maintain cost or pricing data to support procuring the contractor. As a result, we questioned \$56,857 in costs paid to Mr. Preston.

The recipient reimbursed a consultant not in compliance with the terms and condition of the contract. During our audit period, the recipient entered into a contract and subsequent amendments contracts with H. Ronald Preston, a former employee, for a variety of consulting services. The recipient recorded and paid \$56,857 to the consultant, as follows:

Table 3-5: Questioned Costs for H. Ron Preston Contract

Cost Element	X79733901	X799368209	X83251701	X83274301	X799368208	Total Amount Reported
Compensation	\$690	\$21,337	\$9,061	\$9,480	\$13,108	\$53,676
Expense		1,168	601	82	1,330	3,181
Total	\$690	\$22,505	\$9,662	\$9,562	\$14,438	\$56,857

Sources: The contract costs were obtained from the recipient’s accounting records. The amounts questioned were based upon OIG analysis.

During our review of the contract and related documentation, we found an overall lack of proper contract administration. The terms and condition of the consultant's contract required him to invoice for services on a monthly basis. However, the consultant did not invoice for services rendered as required. Our review of contract files did not find any detailed invoices showing specific services rendered and billing amounts. The recipient processed these contractor payments through its payroll system, and recorded them in its financial management system as contractor expenditures. With no supporting documentation, we have no basis to determine if the contract services performed were within the scope of his contract and the EPA assistance agreements, and if the amounts billed and paid to the contract were reasonable.

The contract was amended to allow for a performance bonus to be paid. However, the specific nature of how the bonus was to be calculated or what the consultant must do to receive the bonus was not identified in the contract terms and conditions. In concert with a lack of adequate invoicing to support services rendered, we cannot make a determination if the costs associated with the bonus were reasonable.

As part of our review of cost and pricing data for selected sole source procurements, we determined that the H. Ron Preston contract did not have any documentation to show that a cost or pricing analysis was performed. Therefore, the contractor's costs are also questioned due to lack of adequate cost or pricing data.

Recipient's Response:

The recipient stated that it has taken action to address the concern expressed about the lack of signed invoices for the consultant's services. The consultant's current contract requires an invoice every 4 weeks that is signed and approved before payment for services rendered. To address the cost already incurred and questioned, the recipient collected time records from the consultant that document the time he worked on the contracts for the period covered by this audit. Canaan Valley Institute also documented the tasks performed by the consultant while under contract during the same period of time. The recipient's Science and Technology Director, the Research and Development team manager, and the Aquatics Resource team manager were aware of the work being performed by the consultant as he provided science consultation, guidance, recommendations, project management, and oversight to the Science and Technology and the Stakeholder Services teams. Canaan Valley Institute performed a cost analysis of the consultant's contract and stated that the time records, task documentation, and cost analysis support the cost incurred and questioned as a valid expenditure for the audited assistance agreements.

Although the consultant's contract allowed for performance bonuses, it did not specify the requirements to receive a bonus. However, bonuses were awarded

based on tasks performed by the consultant above and beyond his scope of work. In addition to tasks outlined in his scope of work, the consultant represented Canaan Valley Institute at several conferences, organized and coordinated two 2-day botanical bio-blitzes at the recipient location, and participated in many assessments and visits to project sites during the period covered by the audit.

OIG Analysis:

In responding to the draft report, the recipient stated that its current consultant's contract provides for invoicing of services rendered every 4 weeks. During the audit, we noted that the terms of the consultant's agreement required payment every 2 weeks, based on a fixed amount. The recipient did not provide a copy of the current contract so that we could evaluate the terms of the agreement, including invoicing requirements and examples of current invoices, to ensure that services and related costs meet the requirements of 40 CFR 30.40.

In order to support claimed consultant costs that were questioned, the recipient provided a tabulation of hours worked and a separate description of the services rendered. Neither the consultant nor the recipient identified the services and hours worked to the biweekly amounts paid. Therefore, the documentation does not adequately support the costs claimed.

The recipient stated that it paid out bonuses for tasks performed above and beyond the scope of work. Without a contract that specifically states the scope of work required by the consultant, we cannot assess whether the work actually performed by the consultant, resulting in bonuses, would be allowable for reimbursement. EPA cannot participate in funding services that are outside the scope of a consultant's contract.

Canaan Valley Institute provided a Cost and Price Analysis Worksheet for the agreements, stating that a cost analysis was performed after the fact. However, no documentation was provided to support its statements in the worksheet. We contacted the recipient requesting any additional documentation that it would have to support the analysis provided. The recipient did not have any further information. Accordingly, our audit position remains unchanged.

EPA Funds Used to Match Another Federally-Funded Cooperative Agreement

The recipient used \$102,120 of EPA funds, under EPA assistance agreements X799368208 (\$55,486) and X799368209 (\$46,634), to meet its cost-matching requirement of another federally-funded cooperative agreement. The U.S. Department of Agriculture (USDA) entered into a cooperative agreement with the recipient under the Intergovernmental Personnel Act (IPA) for services of a civil engineer for a 2-year period starting in November 2003. In July 2004, USDA awarded a cooperative agreement to the recipient for the IPA position, to cover

the services of the civil engineer's position. Both the IPA form and the cooperative agreement stated that the recipient was required to reimburse 51 percent of the employee's salary and fringe benefits, while on the IPA. The recipient was also responsible for all administrative and indirect costs associated with this agreement, such as office space, supplies, etc. USDA paid all travel and relocation expenses of the employee.

The OMB Circular A-122, Attachment A, Paragraph A.2f, states that for costs to be allowable under an award, costs must not be included as costs or used to meet cost-sharing requirements of any other federally-financed program in either the current or a prior period. The recipient used expenses incurred under an EPA assistance agreement to meet matching requirements under the USDA cooperative agreement. Accordingly, we question the \$102,120 used to meet the cost sharing requirement.

Recipient's Response:

The Natural Resources Conservation Service (NRCS), under the USDA, entered into an IPA agreement with Canaan Valley Institute for services of an NRCS civil engineer; the agreement was executed on December 22, 2003. Subsequently, NRCS drafted a cooperative agreement for the purpose of detailing the responsibilities of each party to the IPA agreement. The cooperative agreement was executed on July 22, 2004. According to the recipient, NRCS made an error by using a cooperative agreement for this purpose. Therefore, in December 2007, NRCS drafted an amendment to the original agreement, in which NRCS stated that the purpose of the amendment was to correct and clarify the intent and title of the agreement, which was incorrectly termed "Cooperative Agreement," and signed and executed as such. The amendment further states that the IPA agreement is the correct document for the civil engineer position, and the contents of the cooperative agreement are for the purpose of detailing the responsibilities of each party only. Additionally, the amendment attaches the actual IPA agreement as the official agreement document.

Canaan Valley Institute's obligation to pay USDA NRCS for the services of a civil engineer has always come from the IPA agreement, which is the official agreement document, and therefore, the recipient believes the related costs are allowable.

OIG Analysis:

The recipient's execution of an amendment to the cooperative agreement does not change the terms of the IPA. The agreement still requires the recipient to provide for 51 percent of the funding of the services provided by the USDA employee. We restate that OMB Circular A-122, Attachment A.2.f requires that for costs to be allowable under an award, the costs must not be included as a cost or used to

meet cost sharing requirements of any other federally-financed program in either the current or a prior period. Accordingly, our audit position remains unchanged.

Recommendations

We recommend that the EPA Director, Grants and Interagency Agreements Management Division, and/or the Regional Administrator, Region 3:

- 3-1 Require the recipient to revise its FY 2007 indirect cost rate proposal to comply with OMB Circular A-122 to:
 - eliminate unnecessary adjustments resulting from converting accrual basis amounts to the cash basis, and
 - provide sufficient information regarding its direct allocation plan, including the elements of each of the cost pools for directly allocated costs, the elements of the allocation base, proposed dollar amounts, and rate calculations.
- 3-2 Disallow indirect costs claimed of \$1,696,493 and directly allocated costs of \$1,086,116 until adequate indirect cost rate proposals are submitted and approved by the U.S. Department of Commerce, in accordance with OMB Circular A-122 and applicable EPA grant requirements
- 3-3 Ensure that the recipient complies with the assistance agreement conditions and does not request reimbursement for indirect or directly allocated costs until indirect costs rate are submitted and approved.
- 3-4 Require the recipient to submit revised Federal Cash Transaction Reports (SF 272s) or final Financial Status Reports (SF 269s) to reflect allowable indirect costs, based upon negotiated indirect cost rates.
- 3-5 Require the recipient to prepare its Policies and Procedures manual, with sufficient details, to ensure that goods and services are furnished in an effective manner and in compliance with the provisions of 40 CFR 30.40.
- 3-6 Require the recipient to offset reported outlays on assistance agreement X83274301 by surplus revenue (program income) totaling \$17,266. The recipient should also identify any additional program income earned from July 1, 2007, through the end of the assistance agreement period, and credit this income to the assistance agreement.
- 3-7 Require the recipient to provide adequate cost or pricing data to support questioned contractual costs, totaling \$272,888 and disallow and recover the federal share of any outlays which are not supported.

- 3-8 Recover payments of \$4,187 of outlays incurred outside of the scope of the grant agreement and not participate in any future costs associated with this project.
- 3-9 Require the recipient to provide adequate documentation to support the \$56,587 in contractor payments to H. Ronald Preston, including detailed billings showing work performed and related charges, justification for awarding performance bonuses, adequate cost or pricing data to support contract award, and the current contract award showing modifications to contract language that comply with 40 CFR 30.40.
- 3-10 Disallow the \$102,120 of EPA funds used to meet the cost sharing requirements of the USDA's cooperative agreement.

Chapter 4

Results of Examination – Program Results

While Canaan Valley Institute, Inc., provided all required deliverables and reports as required under its assistance agreements to EPA, it could improve monitoring of its subrecipient grant program. The recipient does not require subrecipients to submit final technical reports, and allows subrecipients to draw cash prior to actual need. As a result, the recipient does not have accurate information on the results of the subawards and may be drawing funds prior to need.

As part of the recipient's outreach efforts, it would provide subrecipient grants (generally not to exceed \$5,000) to help to leverage resources for communities to fund water restoration and conservation projects. According to the recipient, since 1995, it has given out more than \$1.3 million to over 350 subrecipients for educational, training and organizational assistance to watershed communities to support restoration and wastewater projects.

Title 40 CFR Part 30.51(a) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Title 40 CFR Part 30.21(b)(5) states that the recipient should have written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury and the issuance or redemption of checks, warrants, or payments by other means for program purposes by the recipient. EPA included, in each of its agreements, an administrative condition that imposes the same standards of timing and reporting cash activities on subrecipients.

During our review of the project file for the McClure River Restoration Project (subrecipient), we noted that the project file did not evidence a final technical report on the project, although it did contain a final financial report. The recipient does not require its subrecipients to provide a final technical report. In Fiscal Year 2005, the recipient did change its subrecipient program to suggest that subrecipient submit such a report. However, it is not a requirement of the program to submit a final technical report. As a result, the recipient cannot be certain that the expected benefits from its subawards were actually achieved and could prevent the recipient from accurately reporting results to EPA.

In reviewing the McClure River Restoration project file, we also found that the 6-month monitoring report stated funds awarded to the subrecipient have not been expended at the time of the review. According to the recipient's Stakeholder Services & Assessment Director, it is a common practice of subrecipients not to expend the funds upon receipt. The reason might be that the recipient's funding was awarded with a condition that the subrecipient obtains other funds to

complete its projects. Another reason may be that the subrecipient is a small organization, and therefore needs time to accomplish the task. The recipient is not complying with the administrative conditions of the assistance agreements when it allows subrecipients to obtain funds prior to need.

Recipient's Response:

Canaan Valley Institute recognized that it did not require sub-recipients to submit a final technical report as part of its sub-recipient grant program. The recipient agreed that this should be corrected and will require all future grantees to submit final technical reports along with their final financial reports. The recipient stated that this will help them to better evaluate the outcomes of its small grants program awards.

Regarding sub-recipient funding, Canaan Valley Institute said that while sub-recipient awards generally do not exceed \$5,000, it will address this concern by implementing a new procedure when releasing sub-recipient grant funds. Sub-recipients will be required to submit a request in writing to Canaan Valley Institute when they begin incurring costs. This step will correct the timing of cash activities with respect to sub-recipients.

OIG Analysis:

The recipient concurred with our recommendations. The recipient should provide documentation to EPA demonstrating the implementation of the recommendations.

Recommendations

We recommend that the EPA Director, Grants and Interagency Agreements Management Division, direct the recipient to:

- 4-1 Revise its subrecipient monitoring program to require technical reports from its subrecipients.
- 4-2 Comply with the administrative conditions of the agreements to impose the same standards of timing of cash activities on its subrecipients.

Schedules of Reported Outlays and Results of Examination

Schedule 1 Reported Outlays and Results of Examination for Assistance Agreement X799368208

Description	Amount	Questioned Outlays	Note
Personnel	\$ 576,541		
Fringe Benefits	169,009	\$167,132	1
Travel	101,491	29,952	1
Equipment	53,659		
Supplies	17,431		1
Contractual	217,135	93,497	2
All Other	474,111	55,498	1
Indirect Costs	480,018	480,018	1
Less: Program Income	101,195		
Total	\$1,988,200	\$826,097	
Less: Questioned costs	826,097		
Adjusted Total Outlays	\$1,162,103		
EPA Payments	1,988,200		
Due EPA	\$ 826,097		

Sources: The total reported outlays and amounts claimed were from the recipient's *FCTRs*. The amounts questioned were based upon OIG analysis.

Note 1: See discussion on unallowable indirect costs in **Chapter 3 - Results of Examination**.

Note 2: Contractual costs claimed and questioned are detailed below.

Description	Amount	Questioned Outlays	Note
Direct Cost Allocation	\$ 13,177	\$13,177	a
Cost/Pricing Data – James Kreissl	6,209	6,209	b
H. Ron Preston	14,438	14,438	c
IPA	55,486	55,486	d
Motion Masters	4,187	4,187	e
Other Contractual	123,638	0	
Total Contractual	\$217,135	\$93,497	

- a. See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination.**
- b. See discussion on cost and pricing data in **Chapter 3 - Results of Examination.**
- c. See discussion on procurement of the H. Ronald Preston contract in **Chapter 3 - Results of Examination.**
- d. See discussion on procurement – funds being used to match another federally-funded cooperative agreement in **Chapter 3 - Results of Examination.**
- e. See discussion on procurement – funds being used outside scope of agreement in **Chapter 3 – Results of Examination.**

Schedule 2
Reported Outlays and Results of Examination for
Assistance Agreement X83274301

Description	Amount	Questioned Outlays	Note
Personnel	\$ 391,465		
Fringe Benefits	151,496	\$138,617	1
Travel	40,664	14,706	1
Equipment	249,797		
Supplies	140,803	5,269	1
Contractual	177,118	177,118	2
All Other	236,175	48,654	1
Indirect Costs	366,322	366,322	1
Less: Program Income	84,951		3
Total	\$1,668,889	\$750,686	
Less:			
Questioned costs	750,686		
Unreported Program Income	17,266		4
Adjusted Total Outlays	\$ 900,937		
EPA Payments	1,684,000		
Due EPA	\$ 783,063		

Sources: The total reported outlays and amounts claimed were from the recipient's *FCTRs*. The amounts questioned were based upon OIG analysis.

Note 1: See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

Note 2: Contractual costs claimed and questioned are detailed below.

Description	Amount	Questioned Outlays	Note
Direct Cost Allocation	\$ 7,188	\$ 7,188	a
Cost/Pricing Data – AC Express, Inc.	160,368	160,368	b
H. Ron Preston	9,562	9,562	c
Total Contractual	\$177,118	\$177,118	

a. See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

- b. See discussion on cost and pricing data in **Chapter 3 - Results of Examination.**
- c. See discussion on procurement of the H. Ronald Preston contract in **Chapter 3 - Results of Examination.**

Note 3: Program income of \$84,951 consists of fee-for-service amounts of \$78,238 and conference and registration fees of \$6,713.

Note 4: See discussion of program income in **Chapter 3 - Results of Examination.**

Schedule 3
Reported Outlays and Results of Examination for
Assistance Agreement X83251701

Description	Amount	Questioned Outlays	Note
Personnel	\$391,154		
Fringe Benefits	136,416	\$118,495	1
Travel	37,318	11,965	1
Equipment	6,895		
Supplies	42,597	1,931	1
Contractual	72,191	18,109	2
All Other	71,102	42,454	1
Indirect Costs	244,168	244,168	1
Less: Program Income	8,824		
Total	\$993,017	\$437,122	
Less: Questioned costs	437,122		
Adjusted Total Outlays	\$555,895		
EPA Payments	992,000		
Due EPA	\$436,105		

Sources: The total reported outlays and amounts claimed were from the recipient's *FCTRs*. The amounts questioned were based upon *OIG* analysis.

Note 1: See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

Note 2: Contractual costs claimed and questioned are detailed below.

Description	Amount	Questioned Outlays	Note
Direct Cost Allocation	\$ 5,853	\$ 5,853	a
Cost/Pricing Data – AC Express, Inc.	354	354	b
Cost/Pricing Data – James Kreissl	2,240	2,240	b
H. Ron Preston	9,662	9,662	c
Other Contractual	54,082		
Total Contractual	\$72,191	\$18,109	

a. See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

- b. See discussion on cost and pricing data in **Chapter 3 - Results of Examination.**
- c. See discussion on procurement of the H. Ronald Preston contract in **Chapter 3 - Results of Examination.**

Schedule 4
Reported Outlays and Results of Examination for
Assistance Agreement X799368209

Description	Amount	Questioned Outlays	Note
Personnel	\$ 860,427		
Fringe Benefits	281,139	\$ 263,856	1
Travel	98,430	33,411	1
Equipment	6,519		
Supplies	53,582	6,689	1
Contractual	356,006	187,983	2
All Other	178,065	103,017	1
Indirect Costs	592,767	592,767	1
Less: Program Income	442,935		
Totals	\$1,984,000	\$1,187,723	
Less: Questioned costs	1,187,723		
Adjusted Total Outlays	\$ 796,277		
EPA Payments	1,984,000		
Due EPA	\$1,187,723		

Sources: The total reported outlays and amounts claimed were from the recipient's *FCTRs*. The amounts questioned were based upon *OIG* analysis.

Note 1: See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

Note 2: Contractual costs claimed and questioned are detailed below.

Description	Amount	Questioned Outlays	Note
Direct Cost Allocation	\$ 15,127	\$ 15,127	a
Cost/Pricing Data – AC Express	177	177	b
Cost/Pricing Data – Wildland Hydrology	103,540	103,540	b
H. Ron Preston	22,505	22,505	c
IPA	46,634	46,634	d
Other Contractual	168,023		
Total Contractual	\$356,006	\$187,983	

- a. See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination.**
- b. See discussion on cost and pricing data in **Chapter 3 - Results of Examination.**
- c. See discussion on procurement of the H. Ronald Preston contract in **Chapter 3 - Results of Examination.**
- d. See discussion on procurement – funds being used to match another federally-funded cooperative agreement in **Chapter 3 - Results of Examination.**

Schedule 5
Reported Outlays and Results of Examination for
Assistance Agreement X797339001

Description	Amount	Questioned Outlays	Note
Personnel	\$27,398		
Fringe Benefits	2,816	\$ 2,816	1
Supplies	4,550		
Contractual	961	961	2
All Other	3,375	38	1
Indirect Costs	13,218	13,218	1
Total	\$52,318	\$17,033	
Less: Questioned costs	17,033		
Adjusted Total Outlays	\$35,285		
EPA Payments	50,000		
Due EPA	\$14,715		

Sources: The total reported outlays and amounts claimed were from the recipient's *FCTRs*. The amounts questioned were based upon OIG analysis.

Note 1: See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.

Note 2: Contractual costs claimed and questioned are detailed below.

Description	Amount	Questioned Outlays	Note
Direct Cost Allocation	\$271	\$271	a
H. Ron Preston	690	690	b
Total Contractual	\$961	\$961	

- a. See discussion of unallowable indirect costs in **Chapter 3 - Results of Examination**.
- b. See discussion on procurement of the H. Ronald Preston contract in **Chapter 3 - Results of Examination**.

Status of Recommendations and Potential Monetary Benefit

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
3-1	19	Require the recipient to revise its FY 2007 indirect cost rate proposal to comply with OMB Circular A-122 to eliminate unnecessary adjustments resulting from converting accrual basis amounts to the cash basis, and provide sufficient information regarding its direct allocation plan, including the elements of each of the cost pools for directly allocated costs, the elements of the allocation base, proposed dollar amounts, and rate calculations.	O	Director, Grants and Interagency Agreements Management Division			
3-2	19	Disallow indirect costs claimed of \$1,696,493 and directly allocated costs of \$1,086,116 until indirect cost rate proposals are submitted and approved by the U.S. Department of Commerce, in accordance with OMC Circular A-122 and applicable EPA grant requirements.	U	Director, Grants and Interagency Agreements Management Division, and Regional Administrator, Region 3		\$2,783	
3-3	19	Ensure that the recipient complies with the assistance agreement conditions and does not request reimbursement for indirect or directly allocated costs until indirect costs rate are submitted and approved.	U	Director, Grants and Interagency Agreements Management Division, and Regional Administrator, Region 3			
3-4	19	Require the recipient to submit revised Federal Cash Transaction Reports (SF 272s) or final Financial Status Reports (SF 269s) to reflect allowable indirect costs, based upon negotiated indirect cost rates.	U	Director, Grants and Interagency Agreements Management Division, and Regional Administrator, Region 3			
3-5	19	Require the recipient to prepare its Policies and Procedures manual, with sufficient details, to ensure that goods and services are furnished in an effective manner and in compliance with the provisions of 40 CFR 30.40.	C	Director, Grants and Interagency Agreements Management Division	03/26/08		
3-6	19	Require the recipient to offset reported outlays on assistance agreement X83274301 by surplus revenue (program income) totaling \$17,266. The recipient should also identify any additional program income earned from July 1, 2007, through the end of the assistance agreement period, and credit this income to the assistance agreement.	U	Director, Grants and Interagency Agreements Management Division		\$17	
3-7	19	Require the recipient to provide adequate cost or pricing data to support questioned contractual costs, totaling \$272,888 and disallow and recover the federal share of any outlays which are not supported.	U	Director, Grants and Interagency Agreements Management Division, and Regional Administrator, Region 3		\$272	

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
3-8	20	Recover payments of \$4,187 of outlays incurred outside of the scope of the grant agreement and not participate in any future costs associated with this project.	U	Regional Administrator, Region 3		\$4	
3-9	20	Require the recipient to provide adequate documentation to support the \$56,587 in contractor payments to H. Ronald Preston, including detailed billings showing work performed and related charges, justification for awarding performance bonuses, adequate cost or pricing data to support contract award, the current contract award showing modifications to contract language that comply with 40 CFR 30.40.	U	Director, Grants and Interagency Agreements Management Division, and Regional Administrator, Region 3		\$57	
3-10	20	Disallow the \$102,120 of EPA funds used to meet the cost sharing requirements of the USDA's cooperative agreement.	U	Regional Administrator, Region 3			
4-1	22	Direct the recipient to revise its subrecipient monitoring program to require technical reports from its subrecipients.	O	Director, Grants and Interagency Agreements Management Division			
4-2	22	Direct the recipient to comply with the administrative conditions of the agreements to impose the same standards of timing of cash activities on its subrecipient.	O	Director, Grants and Interagency Agreements Management Division			

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

Appendix A***Scope and Methodology***

We performed our examination in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. We also followed the guidelines and procedures established in the *Office of Inspector General Project Management Handbook*.

We conducted this examination to express an opinion on the reported outlays, and determine whether the recipient complied with all applicable laws and regulations, as well as with any special requirements under the agreement. We conducted our fieldwork from September 10, 2007, through December 12, 2007.

In conducting our examination, we performed procedures as detailed below:

- We interviewed EPA personnel and reviewed grants and project files to obtain background information on the recipient and the agreements.
- We interviewed recipient personnel to understand the accounting system and the applicable internal controls as they relate to the reported outlays.
- We reviewed the Fiscal Year 2004 and 2005 single audit reports, to identify issues that might impact our examination.
- We reviewed the recipient's internal controls specifically related to our objectives.
- We performed tests of the internal controls to determine whether they were in place and operating effectively.
- We examined the reported outlays on a test basis to determine whether the outlays were adequately supported and eligible for reimbursement under the terms and conditions of the agreements and Federal regulations and cost principles.
- We verified that the recipient performed all tasks and provided all deliverables required under the agreements.

The Office of Inspector General has not audited the recipient before. Follow-up of prior findings was, therefore, not necessary.

Appendix B

Recipient's Response



Canaan Valley Institute

WORKING FOR THE SUSTAINABILITY OF THE MID-ATLANTIC HIGHLANDS SINCE 1995

March 26, 2008

Leah Nikaidoh
U. S. EPA Office of the Inspector General
26 W. Martin Luther King Drive
MS: Norwood
Cincinnati, OH 45268

RE: Draft Attestation Report – Incurred Cost Audit of Five EPA Cooperative Agreements

Attached please find Canaan Valley Institute's organization response to the Draft Attestation report. Our response includes several attachments and they are being sent electronically. Due to the sensitive nature of the information contained in the attachments, we request that all attachments be treated as confidential information and not be publicly released.

It is our hope that this response addresses all the questioned issues.

If we can be of further assistance, please contact me or Mike Speranzella, Finance and Operations Director at 304-463-4739.

Sincerely,

Kiena L. Smith /s/
Executive Director

Enclosure



**Organization Response to the U.S. Environmental Protection Agency
Office of Inspector General Draft Attestation Report: Canaan Valley
Institute, Inc., Incurred Cost Audit of Five EPA Cooperative
Agreements**

Submitted March 26, 2008

Indirect Costs

The Environmental Protection Agency Office of Inspector General (EPA OIG) questioned \$1,696,493 of indirect cost claimed by Canaan Valley Institute (CVI) for the period covered by the audit, October 1, 2004 through June 30, 2007. As noted in the report, the last approved indirect cost rate was based on FY2003 audited financial reports and was 31.92%. The indirect cost rates used by CVI during the audit period, based on actual expenses incurred, were 30.91%, 31.51%, and 31.55% for FY2005, FY2006, and FY2007 respectively. As also noted in the report, CVI has received a letter from our cognizant agency, the U.S. Department of Commerce, directing us on how to proceed to obtain a new, approved indirect cost rate (see Attachment A). Per this letter, CVI has submitted an indirect cost proposal based on audited FY2007 expenditures to the U.S. Department of Commerce (see Attachment B).

The EPA OIG also questioned \$1,086,116 of direct cost claimed by CVI which was allocated to funding sources through the direct allocation method. It was noted in the report that this direct allocation of costs was not disclosed in the FY2003 indirect cost proposal, and this is correct. CVI has addressed this and an explanation of the direct cost allocation of expenses used by CVI is included as part of the attached FY2007 indirect cost proposal. The basis for some of the direct cost allocations, in particular professional fees for accounting and legal and telephone expense, were questioned with respect to the benefit received compared to the allocation. CVI has addressed this and starting with FY2008 now allocates professional fees for accounting and legal and telephone expense based on salary expense for all funding sources.

Program Income

The EPA OIG questioned the amount of program income credited to the Office of Environmental Information (OEI) and says an additional \$12,266 should be credited to the OEI agreement for the period ended June 30, 2007. CVI must respectfully take exception to the OIG position that additional program income must be credited for the period ended June 30, 2007.

CVI performs Fee-for-Service (FFS) work for non-Federal clients using the Light Detection and Ranging (LiDAR) equipment and aircraft purchased with funds awarded by OEI to CVI. The purchased equipment is also used to meet the deliverable requirements for several of CVI's Federal awards as well. For the audit period ended June 30, 2007 CVI recorded a FFS net profit of \$95,504, and credited \$82,813(*) back to the OEI agreements as FFS program income, as noted in the report. The EPA OIG says that all of the FFS net profit should be credited back to the OEI agreement but CVI does not agree. All expenses incurred by CVI while performing on FFS contracts are recorded in the CVI accounting system against the FFS general ledger accounts and at no time during FFS activities are any expenses recorded against Federal awards nor are any Federal funds used to support the activities. CVI does agree that when expenses for an activity are charged to a Federal award then all income associated with that activity should be credited back to that award, as CVI does for workshops and conferences; however, as stated earlier, that is not the case for FFS activities. CVI does meet the requirements of 40 CFR 30.34(b) in that when we used equipment acquired with Federal funds to provide services to non-Federal outside organizations(as is the case for FFS) we have to charge them a fee comparable to those charged by private companies for the same service, which we did. CVI also followed 40 CFR 30.34 (d) that states that a fair market use fee must be charged when equipment owned by the Federal government is used for a non-Federal purpose and those fees returned as program income to the appropriate Federal award. While the LiDAR equipment and airplane are not owned by the Federal government (per 40 CFR 30.34 (a)) CVI did charge our FFS clients a fair market use fee for the equipment and credited those fees back to the OEI awards as part of the \$82,813 of program income. CVI therefore believes we have met the 40 CFR requirements for the use of equipment acquired with Federal funds and does not owe additional program income for the period ended June 30, 2007.

The report noted that additional program income earned through the end of the OEI assistance agreement should be credited to the agreement. An additional \$43,048 of program income has been credited to the OEI agreement through the end of the agreement on August 31, 2007. A total of \$125,861 from FFS program income has been credited to the OEI agreements from October 1, 2004 through August 31, 2007.

(*) The report states that \$83,238 was credited back to the assistance agreements from FFS contracts but that figure should actually be \$82,813.

Procurement – Contract Management

The EPA OIG sited the need for CVI's policies and procedures manual to be strengthened, especially in the areas of contract administration and contract provisions. The CVI policies

and procedures manual and contract documents have been modified to include details necessary to ensure that goods and services are obtained in an effective manner and in compliance with the provisions of 40 CFR 30.40 through 30.48 (see Attachments C and D, revised Project Procedures and Contracts Procedures sections of the CVI Policies and Procedures Manual, and contract template).

Procurement – Cost and Pricing Analysis

The EPA OIG questioned contract costs of \$272,888 sighting the lack of a cost or price analysis for the contracts. All of the questioned contracts were sole source procurements therefore Cost Analysis Worksheets have been completed for each of the questioned contracts: A.C. Express, Inc. contracts CVI 2005-36 and 2006-22, three Wildland Hydrology 2006 contracts, and James Kreissl CVI 2004-10 and 2005-03 contracts. (See Attachments E - M.)

Procurement – Services Outside the Scope of the Agreement

The EPA OIG has questioned the expenditure of \$4,187 from agreement X799368208 to cover 30% of the cost of a project to develop an educational film documentary about the green building practices used in CVI's planned new Research and Education Complex. The idea behind "green building" is to minimize the negative environmental impacts from construction, long-term energy consumption and maintenance of the building infrastructure. Some green practices have direct implications for four of CVI's listed agreement priority areas-- wastewater issues, land use, source water and flooding. The educational documentary will show how and why CVI is using innovative wastewater treatment techniques that will prevent any treated wastewater from directly entering stream systems. This ensures that wastewater will be additionally treated by percolation through soils, prevents warm treated water from entering coldwater streams, and provides additional protection for streams. These techniques have application across CVI's service area and are a major focus of CVI's activities with wastewater treatment. The use of these kinds of technologies are also critical to protecting source water in the Mid-Atlantic Highlands, as inadequately or inappropriately treated wastewater is a known contaminant of source water in the region. The siting of CVI's building—using a previously disturbed site and protecting as much existing habitat as possible during construction, is a direct demonstration of the kinds of land use practices CVI has been encouraging through its work on the relevant agreement. Finally the use of innovative storm water management techniques in and around CVI's building, access road and parking lot are also critical practices for mitigation flooding impacts in developed areas of the region.

All of these techniques are being highlighted in the educational documentary and are the main impetus of the educational filming project. CVI therefore respectfully disagrees with the EPA OIG and believes that the questioned costs are allocable to assistance agreement X799368208, that the documentary content is specifically related to the assistance agreement and that the funds expended for the documentary benefit the assistance agreement.

Procurement – Improper Contract Administration

The EPA OIG has questioned \$56,857 of cost paid to a consultant contractor, H. Ronald Preston. CVI has taken action to address the concern expressed about the lack of signed invoices for Mr. Preston's services. Mr. Preston's current contract requires an invoice every four weeks that is signed and approved before payment for services rendered. To address the cost already incurred and questioned, CVI has collected time records from Mr. Preston that document the time he worked on the CVI contracts for the period covered by this EPA OIG audit (see Attachment N). CVI has also documented the tasks performed by Mr. Preston while under contract to CVI during the same period of time (see Attachment O). Supporting documentation, including meeting notes of attendance, rosters, copies of final reports and emails have been collected noting Mr. Preston's participation in specific activities and projects. The Science and Technology Director, the Research and Development team manager and the Aquatics Resource team manager were aware of the work being performed by Mr. Preston as he provided science consultation, guidance, recommendations, project management and oversight to the Science and Technology and the Stakeholder Services teams. CVI has performed a cost analysis of Mr. Preston's contract (see Attachments P-Q) and believes that the time records, task documentation and cost analysis support the \$56,857 cost incurred and questioned as a valid expenditure for the audited assistance agreements.

Although Mr. Preston's contract allowed for performance bonuses but did not specify the requirements to receive a bonus, bonuses were awarded based on tasks performed by Mr. Preston above and beyond his scope of work. In addition to tasks outlined in his scope of work, Mr. Preston represented CVI at several conferences, organized and coordinated two two-day botanical bio-blitzes on CVI property, and participated in many assessments and visits to project sites during the period covered by the EPA OIG audit.

CVI respectfully asks that the sentence "The recipient processed these contractor payments as employee compensation in its payroll system, effectively treating these contractor payments as salary" be changed to state that the payments made to Mr. Preston through the payroll system were recorded in the payroll reports as "1099" payments, not as CVI employee salary, and were recorded in the CVI accounting system as contract expenditures.

EPA Funds Used to Match Another Federally-Funded Cooperative Agreement

The EPA OIG questioned \$102,120 of cost related to an Intergovernmental Personnel Act (IPA) agreement between the U.S. Department of Agriculture (USDA) and CVI.

The Natural Resources Conservation Service (NRCS), under the USDA, entered into an IPA agreement with CVI for services of an NRCS civil engineer; the agreement was executed on December 22, 2003. Subsequently, NRCS drafted a cooperative agreement for the purpose of detailing the responsibilities of each party to the IPA agreement. The cooperative agreement was executed on July 22, 2004. NRCS made an error by using a cooperative agreement for this purpose, therefore, in December 2007, NRCS drafted an

amendment to the original agreement (Amendment 3), in which NRCS stated that the purpose of the amendment was to correct and clarify the intent and title of the agreement, which was incorrectly termed "Cooperative Agreement", and signed and executed as such. The amendment further states that the IPA agreement is the correct document for the civil engineer position, and the contents of the cooperative agreement are for the purpose of detailing the responsibilities of each party only. Additionally the amendment attaches the actual IPA agreement as the official agreement document. Amendment 3 was fully executed on December 21, 2007. (See Attachment R)

CVI's obligation to pay USDA NRCS for the services of a civil engineer has always come from the IPA agreement, which is the official agreement document, and therefore, we believe an allowable cost for the EPA agreement cited in the report.

Program Results

The EPA OIG noted that CVI did not require sub-recipients to submit a final technical report as part of its sub-recipient grant program. CVI agrees that this should be corrected and will require all future grantees to submit final technical reports along with their final financial reports. This will help CVI better evaluate the outcomes of its small grants program awards.

The EPA OIG also noted that CVI was awarding funds to sub-recipients prior to their actual need for the funds. While sub-recipient awards generally do not exceed \$5,000, CVI will address this concern by implementing a new procedure when releasing sub-recipient grant funds. Sub-recipients will be required to submit a request in writing to CVI when they begin incurring costs. This step will correct the timing of cash activities with respect to sub-recipients.

Attachments

The recipient has requested that the attachments be treated as business confidential information and not be publicly released

Appendix C***Distribution***

Office of the Administrator
Region 3 Administrator
Director, Grants and Interagency Agreements Management Division
Director, Office of Grants and Debarment
Assistant Administrator for Environmental Information
Assistant Administrator for Research and Development
Assistant Administrator for Enforcement and Compliance Assurance
Associate Administrator for Policy, Economics, and Innovation
Agency Follow-up Official (the CFO)
Agency Audit Follow-up Coordinator
Audit Follow-up Coordinator, Office of Grants and Debarment
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Associate Administrator for Congressional and Intergovernmental Relations
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