



At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) has significantly increased its funding of environmental programs in the Commonwealth of the Northern Mariana Islands (CNMI), from approximately \$1 million in 2006 to \$8.5 million in 2013. We conducted this audit to determine whether the EPA:

- Has controls and processes in place to ensure proper oversight of CNMI assistance agreements.
- Is ensuring that the assistance agreements effectively and efficiently protect human health and the environment.

During the course of our audit, we decided to focus on consolidated cooperative agreements, as they involved the most funding.

This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Launching a new era of state, tribal and local partnerships.*

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EPA Region 9 Needs to Improve Oversight Over Commonwealth of the Northern Mariana Islands Consolidated Cooperative Agreements

What We Found

The internal controls of the CNMI Department of Environmental Quality (DEQ) and Commonwealth Utilities Corporation (CUC) over assistance agreements need improvement, as well as Region 9's oversight of CNMI's consolidated cooperative agreements. We identified the following areas requiring attention:

- DEQ and CUC labor charging practices do not comply with federal requirements.
- DEQ and CUC consolidated cooperative agreements have inconsistent terms and conditions on agreement payment.
- DEQ inconsistently reported-in-kind and interagency agreement costs.
- Region 9 project files were not readily available to third parties.

More than \$58 million in consolidated cooperative agreement funds are not being administered efficiently and effectively due to inadequate oversight and lack of internal controls.

Recipients are required to comply with consolidated cooperative agreement terms and conditions, as well as the Code of Federal Regulations (CFR) in 2 CFR Part 225 and 40 CFR Part 31. Without adequate internal controls and oversight, over \$58 million in consolidated cooperative agreements funds may not be administered efficiently and effectively, thus reducing the impact those funds could have on improving human health and the environment. As a result, CNMI agencies need to improve the management of EPA-funded projects, and the EPA needs to expand its internal controls accordingly.

Recommendations and Planned Agency Corrective Actions

We made eight recommendations to Region 9 regarding oversight and the need for other improvements, including:

- Disallowing and recovering over \$1.4 million in unsupported labor costs.
- Using appropriate grant payment methods and level of project officer review.
- Improving in-kind and interagency agreement expenditure reporting.
- Improving maintenance of Region 9 project officer files.

Region 9 concurred with all of the recommendations. Some concurrences included modifications, and Region 9 plans to complete the majority of the corrective actions by September 30, 2016.