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OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Costs Claimed by Georgia Department of Natural Resources Under EPA Assistance Agreement No. VC984299-98

Report No. 2003-4-00101

June 26, 2003

This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG and findings contained in this report do not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

Report Contributors:

Keith Reichard
Robert Evans
Kelly Bonnette

Abbreviations

CFR	Code of Federal Regulations
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
EPA	Environmental Protection Agency
FSR	Financial Status Report
OIG	Office of Inspector General
OMB	Office of Management and Budget
State	Georgia Department of Natural Resources



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

OFFICE OF
INSPECTOR GENERAL

June 26, 2003

MEMORANDUM

SUBJECT: Report No. 2003-4-00101
Costs Claimed by Georgia Department of Natural Resources
Under EPA Assistance Agreement No. VC984299-98

FROM: Michael A. Rickey /s/
Director, Assistance Agreement Audits

TO: Russell L. Wright
Assistant Regional Administrator for the
Office of Policy and Management, Region 4

We have examined the costs claimed by the Georgia Department of Natural Resources (State) under Environmental Protection Agency (EPA) assistance agreement No. VC984299-98. This Agreement was authorized under Section 104 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) to provide financial support for the Superfund Core and Voluntary Cleanup Programs.

We questioned \$16,559 of the total Federal share claimed of \$3,930,101 as ineligible, because the State did not comply with the Federal rules, regulations, and terms of the subject assistance agreement.

This audit report contains findings that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. The report represents the opinion of the OIG, and findings contained in this report do not necessarily represent the final EPA position. The OIG has no objection to the release of this report to any member of the public upon request.

We held an exit conference on March 28, 2003, at the conclusion of field work, and informed the State of the preliminary results of our audit. On April 28, 2003, we issued a draft report to the State and Region 4 for comments. On June 12, 2003, the State provided comments on the draft report. The State provided adequate documentation to support questioned travel costs of \$1,266. Thus, the \$1,266 amount has been removed from the report. Further, the State indicated that it had no comments on the questioned ineligible costs, and did not comment on the lack of physical inventories of its CERCLA-funded property. The State also provided comments on actions taken to improve the performance reports since the draft report was issued. The State's response is included in the report as Appendix C. The State declined a final exit conference after the issuance of the draft report.

Action Required

In accordance with EPA Manual 2750, EPA is required to provide this office with a proposed management decision specifying the Agency's position on all findings and recommendations in this report. The draft management decision is due within 120 days of the date of this transmittal memorandum.

If you have questions concerning this report, please contact Keith Reichard, assignment manager, at (312) 886-3045.

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Independent Accountant's Report

We have examined the total costs claimed by the Georgia Department of Natural Resources (State) under the Environmental Protection Agency (EPA) financial assistance agreement, as shown below:

Assistance Agreement No.	Financial Status Report			Federal Share
	Date Submitted	Period Ending	Cumulative Total Outlays Claimed	
VC984299-98	12/17/02	9/30/02	\$4,366,781	\$3,930,101

The State certified that the outlays reported on the *Financial Status Report* (Standard Form 269A) (FSR) were correct and for the purposes set forth in the Agreement. The preparation and certification of each claim was the responsibility of the State. Our responsibility is to express an opinion on the claim 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 by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the claimed costs and performing such other procedures as we considered necessary in the circumstances (see Appendix B for details). We believe that our examination provides a reasonable basis for our opinion.

In our opinion, except for items of questioned costs (see Appendix A), the certified costs referred to above present fairly, in all material respects, the allowable costs incurred in accordance with the criteria set forth in the Agreement. Therefore, we consider the claims to be acceptable as a basis to determine reasonable and allowable costs incurred in the performance of the Agreement. We also found two areas of regulatory noncompliance during our examination. The "Results of Audit" section, as well as Appendix A, provide details of our examination and conclusions.

Keith Reichard /s/

Assignment Manager
Field Work End: March 28, 2003

Background

On September 23, 1997, EPA awarded Assistance Agreement No. VC984299-98 to the State. The following table provides some basic information about the authorized project period and the funds awarded under the Agreement covered by this audit.

Assistance Agreement No.	EPA Share *	Local Share	Total Costs	Project Period
VC984299-98	\$4,745,965	\$560,662	\$5,306,627	10/01/97 - 09/30/03

* The EPA share was 90 percent of total costs up to \$4,745,965.

This Agreement was authorized under Section 104 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) to provide financial support for the following two programs:

Superfund Core Program: The purpose of this program is to enable the State to complete development of a regulatory structure, streamline its environmental oversight and permitting functions, and refine its site tracking and assessment capabilities.

Voluntary Cleanup Program: The purpose of this program is to develop the capacity to oversee and support voluntary cleanup projects, as opposed to enforcement or compulsory cleanups. Work products include developing authorizing legislation and preparation of a manual for implementation of the program. EPA piggy-backed this program with the core program for only 3 years of the grant period (fiscal 1999 through 2001). EPA then awarded the State a separate agreement to fund future Voluntary Cleanup Program activity (VC974387-01).

To assist the reader in obtaining an understanding of the report, key terms are defined below:

Claimed Costs: Program outlays identified by the State on the *Financial Status Report* (Standard Form 269 or 269A).

Ineligible Questioned Costs: Costs incurred and claimed contrary to a provision of a law, regulation, the Agreement, or other agreement or document governing expenditure of funds.

Results of Audit

Summary of Questioned Costs

As noted in the following table, we questioned \$18,399 in costs claimed under the Agreement as ineligible. The questioned costs are detailed in Appendix A.

Category	Claimed Costs	Questioned as Ineligible
Personnel Expenses	\$2,972,707	\$0
Fringe Benefits	\$1,042,982	\$0
Remaining Direct Costs	\$351,092	\$18,399
Totals	\$4,366,781	\$18,399
Federal Share (90%)	\$3,930,101	\$16,559

Regulatory Noncompliance

We identified two areas of regulatory noncompliance during our examination. The State did not: (1) submit timely and complete performance reports as required by the Agreement and Federal regulations, and (2) conduct physical inventories of its CERCLA-funded property as required by 40 Code of Federal Regulations (CFR) 35.6335. The areas of noncompliance are as follows:

Performance Reports Not Submitted Timely: The State's quarterly performance reports did not meet minimum Federal requirements. Specifically, the reports were incomplete and not consistently submitted when due.

The provisions of 40 CFR 35.6650 required the State to submit quarterly progress reports within 30 days of the end of each Federal fiscal quarter. This regulation also specified that the State's quarterly progress reports contain specific data, including:

- An explanation of work accomplished during the reporting period along with a description of corrective measures for any delays or problems.
- A comparison of the percentage of project completion to the project schedule and an explanation of significant discrepancies.
- A comparison of the estimated funds spent to date to planned expenditures and an explanation of significant discrepancies.
- An estimate of the time and funds needed to complete the work required in the Agreement and a justification for any increase.

During the period covered by our audit, the State submitted 19 of the 20 quarterly progress reports that were due. However, only two of those reports were submitted timely. Further, four were not dated and thus could not be reviewed for timeliness. For the remaining 13 quarterly progress reports, the State submitted the reports an average of 54 days late, with a range of 2 to 238 days late. Also, the 19 quarterly progress reports were incomplete, since they did not include the requisite financial data outlined above.

As a result, Region 4 did not have sufficient information to make an assessment of the State's progress in meeting the Agreement's objectives, or determine whether the unexpended funds were adequate to complete all work required.

State Comments

The State has developed new procedures within the Hazardous Waste Management Branch to ensure timely submission of quarterly progress reports. The State now consolidates the quarterly progress reports with the requisite financial information.

Auditor's Response

We discussed this issue with the project officer responsible for the subject agreement. The State has submitted one satisfactory progress report since the issuance of the draft report. We withhold acceptance of the new procedures pending consistency in the timeliness and completeness in the State's submission of quarterly progress reports.

CERCLA-Funded Assets Were Not Inventoried: The State did not conduct biennial physical inventories of its CERCLA-purchased assets as required by EPA regulations. To ensure that property is properly accounted for, the provisions of 40 CFR 35.6335 required the State to conduct a physical inventory of CERCLA funded-property at least every 2 years and to reconcile the inventory to equipment records. The State did not conduct the required inventories or reconciliations. Consequently, the State may not be able to account for and locate all equipment purchased with EPA funds.

State Comments

The State did not comment on this finding.

Recommendations

We recommend that EPA Region 4:

1. Recover the Federal share questioned of \$16,559.
2. Continue to monitor the State's submission of quarterly progress reports to ensure that their new procedures are adequate to fully comply with the requirements of 40 CFR 35.6650.
3. Require that the State to: (a) complete a physical inventory of its CERCLA-purchased assets and reconcile the inventory to the equipment records, and (2) develop written procedures to ensure that the required bi-annual inventories are completed in compliance with provisions of 40 CFR 35.6335.

**Details of Results of Audit
(Assistance Agreement No. VC984299-98)**

Category (FSR)	Claimed Costs (FSR)	Questioned Ineligible	Note
Personnel Expenses	\$2,972,707	\$0	
Fringe Benefits	\$1,042,982	\$0	
Travel	\$66,394	\$0	
Equipment	\$50,071	\$428	1
Supplies	\$17,018	\$0	
Contractual	\$2,868	\$0	
Other	\$214,741	\$17,971	2
Indirect Costs	\$0	\$0	
Total	\$4,366,781	\$18,399	
Federal Share (90%)	\$3,930,101	\$16,559	

Note 1: We questioned claimed equipment costs of \$428 as ineligible. In April 1999, the State submitted a purchase order for a computer to run its Geographic Information System. The purchase order listed the cost for this computer as \$9,316. In June 1999, the purchasing office amended the request to reflect actual costs of \$8,888, or a difference of \$428. The State recorded and claimed the purchase at the requested price of \$9,316 instead of the actual price of \$8,888. Therefore, we questioned the \$428 difference as ineligible.

State Comments

The State indicated that it had no comments on this finding.

Note 2: We questioned claimed equipment rental costs of \$17,971 as ineligible. The State leased a high capacity copier for 3 years beginning August 2001. The annual lease was \$21,565, or \$1,797 per month. For fiscal 2001 and 2002 combined, the State claimed a total of \$43,130, or \$21,565 per year, in rental expenses for the subject copier. Thus, during fiscal 2001, the State claimed 12 months of rent even though the copier had been in place only 2 months. Neither the Agreement nor any of its amendments allowed the State to claim advance payments; the State was

limited to claiming reimbursement of incurred costs. Since the copier had only been in use for 2 months, the State should only have claimed \$3,594 (\$1,797 per month for 2 months) for fiscal 2001 instead of \$21,565. Accordingly, we have questioned the \$17,971 difference (\$21,565 minus \$3,594) as ineligible.

State Comments

The State indicated that it had no comments on this finding.

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 Audit Process Handbook dated November 5, 2002.

We conducted this examination to express an opinion on the claim, and determine whether the State was managing its EPA assistance agreement in accordance with applicable requirements. To meet these objectives, we asked the following questions:

1. Is the State's accounting system adequate to account for assistance agreement funds in accordance 40 CFR 35.6279?
2. Does the State maintain an adequate labor distribution system that conforms with requirements of Office of Management and Budget (OMB) Circular A-87?
3. Is the State properly drawing down assistance agreement funds in accordance with 40 CFR 31.21?
4. Is the State complying with its reporting requirements under 40 CFR 31.41 and 35.6650?
5. Are the costs claimed/incurred under the Agreement adequately supported and eligible for reimbursement under the terms and conditions of the Agreement, OMB Circular A-87, and applicable regulations?
6. Is the State meeting its matching or cost sharing requirements under 40 CFR 35.6235?

In conducting our examination, we reviewed the project files and obtained the necessary assistance agreement information for our examination. We interviewed the project officer and the grants specialist to determine whether they had any concerns that needed to be addressed during our examination. We also interviewed State personnel to obtain an understanding of the accounting system and the applicable internal controls. We obtained and reviewed the single audit reports, and a previous Office of Inspector General interim audit report (E5BGL4-04-0097-4100496) dated August 22, 1994, to determine whether there were any reportable conditions and recommendations addressed in those reports.

We reviewed management's internal controls and procedures specifically related to our objectives. Our examination included reviewing the State's compliance with OMB Circular

A-87; Title 31 CFR Part 205; Title 40 CFR Part 31; Resource Management Directive 2540, Chapter 5; Treasury Manual, Chapter 6, Section 2075.30; and the terms and conditions of the assistance agreement. We also examined the claimed costs on a test basis to determine whether the costs were adequately supported and eligible for reimbursement under the terms and conditions of the assistance agreement, OMB Circular A-87, and applicable regulations. We conducted our field work from January 27, 2003, to March 28, 2003.

After gaining an understanding of the State's financial management system, we reconciled the claimed costs with the State's general ledger. Based on our judgment, we reviewed selected transactions for allowableness. For personnel and fringe benefits, we reviewed costs for January, February, and March of 2002. For all other direct costs, we tested transactions on a judgmental basis, and selected at least one transaction from each of the 5 years covered by this examination. In total, we tested 9.4 percent of the claimed costs.

State Response

Georgia Department of Natural Resources

2 Martin Luther King, Jr. Dr., S.E., East Floyd Tower, Atlanta, Georgia 30334

Lonice C. Barrett, Commissioner
Environmental Protection Division
Harold F. Reheis, Director
David Word, Assistant Director
404/656-4713

June 12, 2003

Mr. Michael A. Rickey, Director
Assistance Agreement Audits
Office of Inspector General
U.S. Environmental Protection Agency
Washington, D.C. 20460

SUBJECT: Draft Audit Report of Costs Claimed by Georgia Department of Natural Resources Under EPA Assistance Agreement No. VC984299-98

Dear Mr. Rickey:

We appreciate the opportunity to comment on the draft audit report prepared by your staff. It was a pleasure to work with Mr. Kelly Bonnette and Mr. Robert Evans on this project.

In the Results of Audit, there are two areas addressed, questioned costs and regulatory noncompliance. A total of \$18,399 was questioned as ineligible and \$1,266 as unsupported. There are no comments on the "questioned as ineligible" costs. Additional documentation to support \$2,560.29 in claimed lodging costs for the period reviewed has already been provided to the audit team. Therefore, the \$1,266 in "questioned as unsupported" costs in the travel category should be removed.

Two areas of regulatory noncompliance were noted in the draft report. Although there is no way to correct past submittals, a new procedure has already been established in the Hazardous Waste Management Branch to ensure timely submittals of all components of quarterly progress reports required by the grant. It should be noted that financial information was submitted separately from programmatic information directly to EPA Program staff for many of the quarters in the audit review period. This has now been consolidated into a single report to avoid any future confusion. There are no additional comments on the regulatory noncompliance issues.

We understand that the report will now be finalized and recommendations added. Region IV will then determine any further course of action on the audit recommendations. Please contact Verona Barnes at 404/656-7802 if you have any questions about these comments.

Sincerely,

Harold F. Reheis, Director
Environmental Protection Division

HFR:vb

cc: Aubrey Hendrix
Rehnee Dyer
Jennifer Kaduck
Bill Mundy

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