OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Attestation Report

The Environmental Careers Organization Reported Outlays for Five EPA Cooperative Agreements

Report No. 2007-4-00065

June 25, 2007

Report Contributors: Keith Reichard
Richard Valliere
Yeon Kim

Abbreviations

Agreement	Cooperative Agreement
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recipient	The Environmental Careers Organization

2007-4-00065
June 25, 2007

At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted this examination to determine whether the (a) reported outlays for five U.S. Environmental Protection Agency (EPA) assistance agreements were reasonable, allocable, and allowable in accordance with the terms and conditions of the agreements and applicable regulations; and (b) The Environmental Careers Organization (Recipient) achieved the intended results of the grant.

Background

EPA awarded five assistance agreements to the Recipient to provide internships to students in the environmental field.

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/2007/20070625-2007-4-00065.pdf

The Environmental Careers Organization Reported Outlays for Five EPA Cooperative Agreements

What We Found

The Recipient did not comply with the financial and program management standards promulgated in Title 40 Code of Federal Regulations (CFR), Subchapter B and OMB Circular A-122. We questioned $6,027,814 of claimed costs because the Recipient (1) could not support the indirect general and administrative, and "mission and placement" outlays; (2) did not maintain support for distributing salaries and wages claimed as indirect general and administration, and "mission and placement"; (3) could not support relocation outlays; and (4) drew EPA funds in excess of those needed to meet immediate needs. The Recipient did not have written accounting procedures for identifying direct and indirect costs, and the basis for allocating such costs to projects. The Recipient also did not complete the required single audit for fiscal year 2005 or comply with financial reporting requirements.

The purpose of the grants was to provide undergraduate and graduate students with exposure to environmental programs through training and experiences in conducting research projects at EPA facilities. As of September 30, 2006, the Recipient recruited 1,423 interns.

What We Recommend

We recommend that the Director for the Grants and Interagency Agreements Management Division address the questioned costs by (1) recovering payments of $4,750,342 unless the recipient can modify its accounting system to meet the requirements of Title 40 CFR 30.21 to 31.28; (2) recover payments of $1,277,472 incurred for ineligible costs; (3) rescind the final indirect cost rate approved for the fiscal year ended December 31, 2004; and (4) require the Recipient to establish policies and procedures for relocating interns that comply with OMB Circular A-122. To address the reporting issues, the Recipient should be required to complete and submit its single audit for the fiscal year ended December 31, 2005, and prepare and submit overdue SF 272 Federal Cash Transactions Reports. Due to the significance of these findings, we also recommend that EPA stop work on all active agreements and not award any new agreements until the Recipient meets minimum financial management requirements and repays all disallowed costs.

The Recipient responded to the draft report on June 5, 2007, but did not provide additional information that would change the findings and recommendations.

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

OFFICE OF
INSPECTOR GENERAL

June 25, 2007

MEMORANDUM

SUBJECT: The Environmental Careers Organization Reported Outlays for Five EPA Cooperative Agreements
Report No. 2007-4-00065

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

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

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. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

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 $265,099

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 grantee. Your proposed decision is due on October 17, 2007. To expedite the resolution process, please email 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 about this report, please contact Janet Kasper at (312) 886-3059 or the above email address.

Table of Contents

Schedules

Appendices

Background

The U.S. Environmental Protection Agency (EPA) awarded five cooperative agreements (agreements) to the Environmental Careers Organization (Recipient) totaling $20,498,630. The Recipient, which is located in Boston, Massachusetts, was formed in 1972, and is a Section 501(c) (3) not-for-profit organization (specified in the Internal Revenue Code). The following table summarizes information about the authorized project periods and funds awarded under each of the five agreements:

Agreement	Award Date	EPA Share *	EPA Payments	Payment As of	Project Period
EQ82906501	6/13/2001	$3,292,906	$3,243,818	09/28/2006	05/01/2001 - 10/31/2006
EQ82898601	4/23/2001	5,177,194	5,174,355	09/28/2006	05/01/2001 - 10/31/2006
EQ83166001	5/03/2004	5,308,900	4,577,097	09/28/2006	05/01/2004 - 04/30/2007
EQ83103201	8/01/2003	1,772,403	1,184,464	08/17/2006	07/01/2003 - 06/29/2007
EQ82797401	1/05/2000	4,947,227	4,947,227	10/01/2004	10/01/1999 - 09/30/2004
Total		$20,498,630	$19,126,961		

Source: The source of the agreement information was the agreements/amendments. The EPA payments and payment dates came from EPA's Financial Data Warehouse.

***** EPA funded 100 percent of all agreements.

The five agreements were awarded under multiple regulatory authorities based on the EPA program offices requesting internships. The objective of the five agreements was to provide undergraduates and graduate students with exposure to environmental programs through training and experiences in conducting research projects at EPA facilities. The Recipient recruited interns at universities, with large culturally diverse student populations, to inspire students to seek environmental careers.

The number of internships by agreement as of September 30, 2006, was as follows:

Agreement	No. of Internships
EQ82906501	240
EQ82898601	405
EQ83166001	333
EQ83103201	100
EQ82797401	345
Total	1,423

Source: The number of internships was provided by the Recipient.

Special Conditions

On February 8, 2006, in order to safeguard EPA funds, EPA imposed a special condition on all EPA assistance agreements awarded to the Recipient. The special condition limited the Recipient to drawing EPA funds only for student-related expenses for the interns. The special condition was placed on the Recipient until the Recipient's new accounting system was in place, and was capable of properly allocating all direct costs to each of the EPA cooperative agreements. On August 10, 2006, EPA amended the special condition, and authorized the Recipient to draw "mission and placement" funds but left intact the prohibition of drawing funds for indirect costs. As of April 3, 2007, the special condition remained in effect.

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

Reported Outlays/Cost:	Actual cash disbursements identified by the Recipient on its *Schedules of Recorded Costs* and the final *Financial Status Report* (Standard Form 269A).
Questioned Costs:	Costs that are (1) contrary to a provision of a law, regulation, agreement, or other document governing the expenditures of funds; or (2) not supported by adequate documentation.

Independent Auditor's Report

We have examined the *Schedules of Recorded Costs* the Recipient prepared for EPA agreements: EQ82906501, EQ82898601, EQ83166001, and EQ83103201. The Recipient did not file its Federal Cash Transactions Reports, Standard Form 272, covering disbursements made for the periods after June 30, 2005. Accordingly, we asked and received the Recipient's *Schedule of Recorded Costs* for each agreement as of September 30, 2006. For agreement EQ82797401, we examined the outlays that the Recipient reported on its final *Financial Status Report*.

Preparing the *Schedules of Recorded Costs* and the final *Financial Status Report* was the Recipient's responsibility. Our responsibility is to express an opinion on the *Schedules of Recorded Costs* and the final *Financial Status Report* and whether the reported outlays were allowable and incurred in accordance with the terms and conditions of the agreements and applicable EPA regulations. A summary of the Recipient's claimed outlays/recorded costs[1] by agreement follows:

Schedule of Recorded Costs/Financial Status Report			
Agreement	**Date Submitted**	**Period Ending**	**Reported Outlays/Recorded Costs**
EQ82906501	11/29/2006	9/30/2006	$3,220,470
EQ82898601	11/29/2006	9/30/2006	5,137,791
EQ83166001	11/29/2006	9/30/2006	4,448,356
EQ83103201	11/29/2006	9/30/2006	1,215,797
EQ82797401	12/30/04	9/30/2004	4,774,690
Total			$18,797,104

Source: Except for agreement EQ82797401, the sources of the recorded costs were the Recipient's *Schedules of Recorded* Costs dated November 29, 2006. For agreement EQ82797401, the source of the reported outlays was the Recipient's final *Financial Status Reports* dated December 30, 2004.

We conducted our examination 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 also followed the guidelines and procedures established in the *Office of Inspector General Project Management Handbook*, dated January 14, 2005. We examined, on a test basis, evidence supporting the reported outlays, and performed such other procedures as we considered necessary in the circumstances (see Appendix A for details). We believe that our examination provides a reasonable basis for our opinion.

[1] For reporting purposes, we will refer to the Recipient's claimed outlays/recorded costs as outlays or costs.

We questioned reported outlays of $6,027,814 because the Recipient did not comply with the financial and program management standards in Title 40 Code of Federal Regulations (CFR), Subchapter B, Part 30.

In our opinion, because of the effects of the findings discussed in the *Results of Examination*, the *Schedules of Recorded Costs* by Assistance Agreement and the outlays that the Recipient reported on its final *Financial Status Report* do not present fairly, in all material respects, the allowable costs incurred in accordance with the terms and conditions of the agreements and applicable EPA regulations.

Janet Kasper
Janet Kasper
Office of Inspector General
U.S. Environmental Protection Agency
May 4, 2007

Results of Examination

Financial and Program Management Systems Did Not Comply with Standards

The Recipient did not comply with the financial and program management standards promulgated in Title 40 Code of Federal Regulations (CFR), Subchapter B, and OMB Circular A-122. We questioned $6,027,814 of claimed costs because the Recipient (1) could not support the indirect general and administrative, and "mission and placement" outlays; (2) did not maintain support for distributing salaries and wages claimed as indirect general and administration, and "mission and placement"; (3) could not support relocation outlays; and (4) drew EPA funds in excess of those needed to meet immediate needs. The Recipient did not have written accounting procedures for identifying direct and indirect costs, and the basis for allocating such costs to projects. The Recipient also did not complete the required single audit for fiscal year 2005 or comply with financial reporting requirements.

The provisions of Title 40 CFR 30.62 provide that if a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute, regulation, assurance, application, or notice of award, EPA may disallow all or part of the cost of the activity or action not in compliance. Because the Recipient did not comply with the grant regulations, we questioned $6,027,814 paid to the Recipient.

Unsupported Indirect Outlays

We questioned the indirect costs that the Recipient allocated to the agreements for several reasons. First, the Recipient allocated indirect costs to the EPA agreements based on an unsupported predetermined indirect rate that was not negotiated with either EPA or any other Federal agency. Second, the Recipient did not use the final rate it had negotiated for fiscal year 2004 when allocating indirect costs to the agreements. Third, the Recipient's indirect costs included unallowable and unsupported costs that may impede EPA from negotiating indirect rates. As a result, we have questioned $2,647,855 of indirect costs and are recommending EPA rescind the approved final indirect rate for fiscal year 2004. See Schedule 1, Note 3, for the detail of questioned indirect outlays by agreement.

Under the provisions of OMB Circular A-122, Attachment A, Paragraph E, a predetermined rate may be negotiated for use on awards where there is reasonable assurance, based on past experience and reliable projection of the organization's costs, that the rate is not likely to exceed a rate based on the organization's actual costs.[2] Where predetermined rates are not appropriate, the Circular requires provisional and final rates

[2] A predetermined rate means an indirect cost rate, applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment.

be negotiated. The Circular defines a provisional rate as a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period. A final rate means an indirect cost rate applicable to a specified past period which is based on the actual costs of the period. A final rate is not subject to adjustment.

The Circular provides that a nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit to its cognizance agency, for negotiation, an initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than 3 months after the effective date of the award. After establishing an indirect cost rate, the Recipient must submit a new indirect cost proposal to the cognizant agency within 6 months after the close of each fiscal year. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the nonprofit organization.

The Recipient did not negotiate either provisional or final indirect cost rates for any fiscal year, except fiscal year 2004. For fiscal year 2004, the Recipient negotiated a final indirect rate of 18.14 percent with EPA. The Recipient, however, did not use the final negotiated indirect rate in determining the reported indirect outlays for fiscal year 2004. Instead, the Recipient determined its reported indirect outlays of $2,647,855 (see Schedule 1, page 15), by using an unsupported predetermined indirect rate of 18 percent applied to the total outlays for stipends, stipend fringes, stipend other, and "mission and placement." Accordingly, we questioned the allocated indirect outlays of $2,647,855 as unsupported. We also recommend that EPA rescind the approved final indirect rate for fiscal year 2004 for the reasons discussed below.

During our field work, the recipient prepared and provided us with final indirect rates for all fiscal years including a revised rate for fiscal year 2004.[3] Our review of these rates identified three issues that may impede EPA from negotiating any rates with the Recipient. First, the Recipient included development costs in the indirect expense pools. According to the Recipient, development costs includes raising funds through grant writing, direct mail appeals, special events, and direct personal requests to foundations, corporations, government, and alumni for recruiting and placing interns. OMB Circular A-122, Attachment A, Paragraph B (3) provides that fund raising costs are not allowable as charges to Federal awards and must be treated as a direct cost. The following table identifies the development costs which were included in the indirect cost pools:

[3] The indirect cost rates the Recipient provided to us during the audit had not been submitted and negotiated with EPA, as required by OMB Circular A-122.

Fiscal Year	Amount
2000	$173,644
2001	225,366
2002	151,000
2003	89,018
2004	70,289
2005	37,928
2006	22,716
Total	**$769,961**

Source: OIG analysis of Recipient accounting records

The second issue we identified was that the Recipient included certain direct costs as indirect costs contrary to the provisions of OMB Circular A-122, Attachment A, Paragraphs B and C. Specifically, the Recipient included direct costs related to the Department of Interior and the State of California projects as indirect costs. The Recipient also included direct intern fringe benefits costs as indirect costs. The Recipient did not provide us with a complete listing of project numbers, therefore, we could not identify the total direct project costs that needed to be removed from the indirect cost pools.

Finally, the Recipient's timekeeping practices also impact the Agency's ability to negotiate indirect cost rates. We were unable to determine the validity of the labor costs included in both the indirect costs pool and the indirect cost allocation base for any fiscal year (see discussion below under *Unsupported Salaries and Wages).*

In response to the draft report, the Recipient stated that it had submitted indirect cost proposals for several years, but a rate was only negotiated for 2004. The Recipient agreed that there were some errors that resulted in billing different rates, but the provisional rate was substantially less than the actual indirect cost rates. According to the Recipient, even if the unallowable items were excluded, the rate billed was less than actual funds spent. While the Recipient stated that actual indirect costs exceeded what was billed, the EPA must approve the indirect cost rates before they can be used to determine allowable costs.

Unsupported "Mission and Placement" Outlays

The Recipient's "mission and placement" costs were costs that the Recipient incurred to recruit and place interns for EPA. We questioned "mission and placement" costs that the Recipient allocated to the agreements for two reasons. First, the Recipient allocated the "mission and placement" costs to the EPA agreements based on unsupported predetermined "mission and placement" rates that were not negotiated with either EPA or any other Federal agency. Second, the Recipient's "mission and placement" outlays included unsupported costs that may impede EPA from negotiating the "mission and placement" rates. As a result, we have questioned $2,616,154 of "mission and placement" costs. See Schedule 1, Note 2, for the detail of questioned "mission and placement" outlays by agreement.

The Recipient did not identify the "mission and placement" costs specifically to a particular final cost objective, i.e., a particular award or project of the organization. Instead, the Recipient identified and recorded the "mission and placement" costs as EPA program costs, and then identified the costs to the EPA agreements based on predetermined rates applied to the stipends paid under each EPA agreement. For example, the Recipient identified "mission and placement" costs to EPA agreement EQ82797401 at a rate of 23.09 percent, but the costs actually varied from 12.36 percent in calendar year 2000 to 23.16 percent in calendar year 2004 (see Schedule 2.5, on page 19). The actual rates varied each year depending upon the actual costs incurred for mission and placement activities and stipends paid to interns. The use of predetermined rates in this case resulted in excess outlays of $180,563 being identified to the EPA agreement.

Title 40 CFR 30.27 provides that the allowable costs incurred by nonprofit organizations are determined in accordance with the provisions of OMB Circular A-122. OMB Circular A-122 provides that predetermined rates may only be used if negotiated and formalized in a written agreement between the cognizant agency and the nonprofit organization. We found no evidence that predetermined rates were negotiated by EPA or any other Federal agency.

As previously noted, a predetermined rate may be negotiated for use on awards where there is reasonable assurance, based on past experience and reliable projection of the organization's costs, that the rate is not likely to exceed a rate based on the organization's actual costs. Where predetermined rates are not appropriate, the Circular requires provisional and final rates be negotiated. The Recipient did not submit and negotiate either provisional or final "mission and placement" rates for any fiscal year.

In total, under the five agreements, the Recipient identified "mission and placement" costs of $2,616,154. During our field work, the Recipient calculated actual "mission and placement" rates for all periods under review.[4] Based on the Recipient's calculations, the identified "mission and placement" costs exceeded the actual costs by $513,667 under the five agreements. Consequently, the $513,667 amount is unallowable. The remaining "mission and placement" costs of $2,102,487 ($2,616,154 - $513,667) are also unallowable as the recipient did not submit its "mission and placement" rates to EPA for negotiation as required by the OMB Circular A-122, Attachment A, Paragraph E (2).

Further, we were unable to determine the allowability of some of the costs included in "mission and placement" cost pools for the fiscal years under review which may impact the Agency's ability to negotiate the "mission and placement" rates. We requested but

[4] The indirect "mission and placement" rates the Recipient provided to us during the audit had not been submitted and negotiated with EPA, as required by OMB Circular A-122.

the Recipient did not provide us with source documentation to support costs in such accounts as (1) grant funded programs, (2) bank fees, (3) conference expenses, and (4) outside consulting and travel costs. In addition, we were unable to determine the validity of the labor costs included in "mission and placement" cost pool for any fiscal year. Should the Recipient submit final "mission and placement" rates to EPA for negotiation, we recommend that EPA disallow all costs that are not supported, including all labor costs (see discussion below under *Unsupported Salaries and Wages).* See Schedule 1, Note 2, for the detail of questioned "mission and placement" outlays.

In responding to the draft report, the Recipient stated that while the "mission and placement" rates were not negotiated, they were annually provided to EPA. Changes in staffing also contributed to the differences between the recorded and actual "mission and placement" costs. The Recipient agreed that the costs were applied to agencies rather than individual, but not did believe that this would cause a difference for total awards to the agency since costs were allocated based on level of activity. We audited all of the EPA grants for the time period, and found that the recorded "mission and placement" costs were higher than actual costs for each grant, and therefore the costs were higher at the agency level.

Unsupported Salaries and Wages

The Recipient did not maintain support for distributing its salaries and wages as required by OMB Circular A-122. As a result, the "mission and placement" and indirect labor costs recorded in the general ledger were not supported as required by OMB Circular A-122, Appendix B, Paragraph 7 m.

OMB Circular A-122 requires that labor reports reflecting activity of each employee must be maintained for all staff members (professional and nonprofessional) whose compensation is charged, in whole or in part, directly to awards. To satisfy these requirements, reports maintained by nonprofit organization must meet the following standards:

> *…The distribution of salaries and wages to awards must be supported by personnel activity reports…*
>
> *The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e[.], estimates determined before the services are performed) do not qualify as support for charges to awards…*
>
> *Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization…*
>
> *The reports must be prepared at least monthly and must coincide with one or more pay periods.*

The Recipient recorded "mission and placement" labor and indirect labor in the general ledger based on predetermined budget estimates of the employees' time. Although employees did maintain time sheets, the time sheets only identified hours worked for payroll purposes only. The time sheets did not identify any final cost objectives which would be needed to distribute the employees' salaries and wages to awards as required by OMB Circular A-122.

In June 2006, the Recipient revised the employee time sheets to reflect the employees' total labor activity. With this time sheet revision, the Recipient required employees to record direct and indirect time. The Recipient also added a new category entitled "Overhead Cost Objectives." The work hours recorded as "Overhead Cost Objectives" reflected time spent on multiple awards within a funding agency. These costs were to be identified directly to final cost objectives based on a percentage of direct time charged to final cost objectives by each funding agency. In January 2007, the Recipient again revised its employee time sheets and eliminated the "Overhead Cost Objectives" labor category. The current time sheets, if used to distribute salaries and wages to awards, will comply with OMB Circular A-122. However, we did not perform any transaction testing of the new time sheets. Accordingly, we can not express an opinion on the adequacy of the revisions made.

In responding to the draft report, the Recipient stated that timesheets were completed, but did not identify specific awards. The rate at which the Recipient charged time to the agreements approximated the activity level for the particular agency and made more sense and was more accurate than what is required by Federal regulations. While the Recipient believed its method was more accurate, it did not provide documentation to support that conclusion. OMB Circular A-122 identifies allowable methods for supporting salaries and wages, and requires awarding agency approval for other methods. The Recipient did not have approval for any other method. By definition, costs not supported by adequate documentation are questioned.

Excess Cash Drawn Down

The Recipient received $361,190 more in EPA funds than incurred and recorded in its accounting system. The Recipient determined the amount of EPA funds to be drawn down by using budgeted amounts instead of actual costs incurred. The provisions of Title 40 CFR 30.22 provide that payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by the recipient. Cash advances shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

We have calculated the excess cash as follows:

Outlay Category	Recorded Costs/Reported Outlays				
	EQ82906501	EQ82898601	EQ83166001	EQ82797401	Total
Total Outlays As of 9/30/06	$ 3,220,470	$5,137,791	$ 4,448,356	$ 4,774,690	$17,581,307
Cash Drawn As of 9/30/06	3,243,818	5,174,355	4,577,097	4,947,227	17,942,497
Excess Cash Draws	$ 23,348	$ 36,564	$ 128,741	$ 172,537	$361,190

Source: The source of the excess cash draws was the OIG analysis of recorded costs/reported outlays and the cash draws.

In addition to the excess recorded costs, for agreement number EQ82797401, the Recipient incurred costs of $216,615 after the project period ended on September 30, 2004. Title 40 CFR 30.28 provides that a recipient may charge to the agreement only allowable costs resulting from obligations incurred during the funding period. At the end of the project period, the Recipient drew EPA funds to pay for the Community Intern Program and the Associate Career Conference in 2005. Since the agreement project period expired on September 30, 2004, costs incurred after September 30, 2004, are unauthorized and have been questioned.

Unsupported and Unallowable Relocation Outlays

We questioned claimed relocation outlays of $186,000 as unsupported because the Recipient did not (1) demonstrate that the claimed relocation outlays were allowable under the OMB Circular A-122, (2) support the actual relocation expenses incurred by interns as required by OMB Circular A-122, and (3) demonstrate whether the interns actually relocated. Accordingly, we questioned claimed relocation outlays of $186,000 as unsupported. See Schedule 1, Note 2, for details on the questioned relocation outlays by agreement.

In announcing the availability of Federal assistance to conduct the intern program, EPA announced that internships may be located at EPA or at facilities of other organizations with missions relating to environmental protection. The maximum period an intern may participate in the intern program on a full- or part-time basis with funding from EPA was limited to 6 months with a possibility of a 3-month extension to complete a project. If interns were required to relocate, EPA would provide financial assistance to the recipient in an amount up to $500 to offset the interns' relocation expenses.

OMB Circular A-122, Attachment B, Paragraph 45 defines relocation costs as costs incident to the permanent change of duty assignment (for an indefinite period or for a stated period of not less than 12 months) of an existing employee or upon recruiting a new employee. The EPA interns were limited to 6 months with a possible extension of 3 months. Thus, relocation costs are not authorized under the Circular as the stated period of employment was less than 12 months.

Attachment A, Paragraph 45 of the Circular also provides that relocation expenses are allowable provided that the reimbursement (1) does not exceed the employee's actual (or reasonably estimated) expenses, and (2) is in accordance with an established written policy followed by the employer. The Recipient neither required receipts from the interns, nor established any written policies or procedures as required by the Circular. Consequently, all the relocation costs are unsupported and thus unallowable.

We sampled 25 relocation transactions to determine if the interns lived within 50 miles of the facility where the internships were located. Of the 25 transaction tested, we determined that 14, or 56 percent, of the interns worked within 50 miles of the internship's residence. Consequently, there did not appear to be a need for the interns to relocate in 56 percent for the transactions tested.

According to the Recipient, in some EPA offices, EPA used the $500 relocation amount as "getting started" assistance for the interns. The Recipient described the "getting started" assistance as help in establishing the interns' housing, and assistance until the first pay check arrived. All interns in certain EPA locations received the $500 relocation amount regardless of whether the intern actually relocated. We do not consider "getting started" assistance as an authorized relocation expense under the Circular. Thus the costs are unallowable.

In responding to the draft report, the Recipient stated that EPA offered relocation assistance for interns that would spend only 9 months on a project. Therefore, it is reasonable to conclude that EPA was not offering the assistance in the context of relocation as defined in OMB Circular A-122. In many instances, the project advisor from EPA offered the relocation assistance as an enticement to secure a particular candidate who would not normally accept the position at the pay rate offered. While EPA may have intended the relocation costs to be an enticement to hire particular candidates, it must do so within the requirements of Federal regulations. Only OMB has the authority to grant exceptions to OMB Circular A-122.

Written Accounting Procedures Did Not Meet Standards

The Recipient did not have written accounting procedures for identifying direct and indirect costs, and the basis for allocating such costs to projects, as required by the regulations. Title 40 CFR 30.21(b) (6) states that the Recipient's financial management system shall provide written procedures for determining that costs are reasonable, allowable, and allocable in accordance with the Federal cost principles and the terms of the agreement.

The Recipient did revise its Accounting Procedures Manual on June 1, 2006. However, this manual is only a compilation of Federal requirements that the Recipient should follow. It does not identify the procedures and practices to be used when recording costs.

The manual does not identify the program project codes, nor does it identify the Chart of Accounts to be used when recording costs. This manual states that the Recipient has established overhead pools using a rational definition of “pool” based upon programs offered. It did not provide any details identifying the pool composition nor the base to which the rate will be applied.

The Recipient needs to develop specific written procedures to address recording and allocating costs in its financial management system. In response to the draft report, the Recipient stated that the entire accounting staff left the organization in the summer of 2006, and new staff was hired in the fall of 2006. Much of the staff’s time was spent replying to requests for historical information from the audit and little time was left to develop procedures.

Single Audit Not Completed

The Recipient did not submit its single audit report for fiscal year 2005 to the Federal Audit Clearing House timely. OMB Circular A-133, Paragraph 320, requires entities to submit the audit report within the earliest of 30 days of the receipt of the audit report or 9 months after the audit period. Thus, the audit report should have been submitted no later than September 30, 2006. It had not been submitted at the time we completed our audit fieldwork. In replying to the draft report, the Recipient agreed that the Single Audit was not performed.

Noncompliance with Financial Reporting Requirements

The Recipient did not file its semiannual Federal Cash Transactions Reports (SF272) covering its outlays for the period July 1, 2005, through June 30, 2006. Outlays for the period July 1, 2006, through September 30, 2006, were required to be reported by January 15, 2007. As of April 13, 2007, the reports had not been submitted. Administrative Grant Conditions require the Recipient to submit its Federal Cash Transactions Report within 15 working days following the end of the semiannual periods ending June 30 and December 31 of each year. This report is used by EPA to monitor cash advances to the Recipient and to obtain disbursement information for each agreement. The Recipient did not comply with EPA reporting requirements. In responding to the draft report, the Recipient stated it was not practical to submit the forms prior to completion of the audit, and that declarations as to the accuracy of the information would not be truthful given the known adjustments to the prior period.

Recommendations

We recommend that the Director, Grants and Interagency Agreement Management Division:

1. Recover payments of $4,750,342[5] unless the Recipient can modify its accounting system to meet the requirements of Title 40 CFR 30.21 to 31.28 and
   a. Prepare and submit mission and placement rates to EPA for negotiation,
   b. Prepare and submit indirect cost rates for fiscal year 1999 through 2007 for negotiation (see also recommendation 3), and
   c. Provide documentation to support labor costs included in the mission and placement and indirect cost rates.
2. Recover payments of $1,277,472 incurred for ineligible costs.
3. Rescind the final indirect cost rate approved for the fiscal year ended December 31, 2004.
4. Require the Recipient to establish policies and procedures for relocation costs that comply with OMB Circular A-122.
5. Require the Recipient to complete and submit its single audit for the fiscal year ended December 31, 2005.
6. Require the Recipient to prepare and submit overdue SF 272 Federal Cash Transactions Reports.
7. Stop work on all active agreements.
8. Not award any new agreements until the Recipient meets (a) minimum financial management requirements, including updating written accounting procedures and procedures for cash draws and (b) repays all disallowed costs.

[5] Represents the questioned mission and placement and indirect costs, less the $513,667 of mission and placement costs in excess of actual costs.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	14	Recover payments of $4,750,342 unless the Recipient can modify its accounting system to meet the requirements of Title 40 CFR 30.21 to 31.28 and a. Prepare and submit mission and placement rates to EPA for negotiation, b. Prepare and submit indirect cost rates for the fiscal year 1999 through 2007 for negotiation (see also recommendation 3), and c. Provide documentation to support labor costs included in the mission and placement and indirect cost rates.	U	EPA Director, Grants and Interagency Management Division	TBD	$4,750	
2	14	Recover payments of $1,277,472 incurred for ineligible cost	U	EPA Director, Grants and Interagency Management Division	TBD	$1,277	
3	14	Rescind the final indirect cost rate approved for the fiscal year ended December 31, 2004.	U	EPA Director, Grants and Interagency Management Division	TBD		
4	14	Require the Recipient to establish policies and procedures for relocation costs that comply with OMB Circular A-122.	U	EPA Director, Grants and Interagency Management Division	TBD		
5	14	Require the Recipient to complete and submit its single audit for the fiscal year ended December 31, 2005.	U	EPA Director, Grants and Interagency Management Division	TBD		
6	14	Require the Recipient to prepare and submit overdue SF 272 Federal Cash Transactions Reports.	U	EPA Director, Grants and Interagency Management Division	TBD		
7	14	Stop work on all active agreements.	U	EPA Director, Grants and Interagency Management Division	TBD		
8	14	Not award any new agreements until the Recipient meets minimum financial management requirements and repays all disallowed costs.	U	EPA Director, Grants and Interagency Management Division	TBD		

[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

Schedule of Recorded Costs/Reported Outlays and Questioned Costs by Assistance Agreement

Category	Recorded Costs/Reported Outlays by Agreement						Note
	EQ82906501	EQ82898601	EQ83166001	EQ83103201	EQ82797401	Total	
Stipends	$ 1,913,362	$ 3,104,707	$ 2,879,587	$ 771,043	$ 2,673,270	$ 11,341,969	
Stipend Fringes	210,303	332,676	253,515	73,900	294,060	1,164,454	
Stipend Other	106,281	224,110	160,533	40,869	278,225	810,018	
Subtotal	**$ 2,229,946**	**$ 3,661,493**	**$ 3,293,635**	**$ 885,812**	**$ 3,245,555**	**$ 13,316,441**	
Mission and Placement	519,203	706,274	606,697	166,760	617,220	2,616,154	
Indirect	471,321	770,024	548,013	163,197	695,300	2,647,855	
Fee	-	-	11	28	-	39	
Other	-	-	-	-	389,152	389,152	
Total	**$ 3,220,470**	**$ 5,137,791**	**$ 4,448,356**	**$ 1,215,797**	**$ 4,947,227**	**$18,969,641**	
Questioned Costs:							
Stipend Other - Relocation	18,000	55,500	18,500	10,000	84,000	186,000	1
Mission and Placement	519,203	706,274	606,697	166,760	617,220	2,616,154	2
Indirect	471,321	770,024	548,013	163,197	695,300	2,647,855	3
Other	0	0	0	0	216,615	216,615	4
Excess Cash Draws	23,348	36,564	128,741	0	172,537	361,190	4
Total Questioned	**$ 1,031,872**	**$ 1,568,362**	**$ 1,301,951**	**$ 339,957**	**$1,785,672**	**$6,027,814**	

Source: Except for agreement EQ82797401, the sources of the recorded costs were the Recipient's *Schedules of Recorded Costs* dated November 29, 2006. For agreement EQ82797401, the source of the reported outlays was the Recipient's final *Financial Status Reports* dated December 30, 2004. The source of the questioned amount was the OIG analysis of recorded costs/reported outlays.

Note 1: See the **Results of Examination,** page 11, for the discussion of unsupported and unallowable relocation outlays. The summary of questioned relocation outlays follows:

Agreement	No. of Interns	Questioned
EQ82906501	36	$ 18,000
EQ82898601	111	55,500
EQ83166001	20	10,000
EQ83103201	37	18,500
EQ82797401	168	84,000
Total	**372**	**$ 186,000**

Note 2: See the **Results of Examination,** page 7, for the discussion of unsupported "mission and placement" outlays. The questioned "mission and placement" outlays of $2,616,154 consist of (1) outlays of $513,667 identified in excess of actual costs; and (2) outlays of $2,102,487 ($2,616,154 - $513,667) based on rates which were not submitted to EPA for negotiation. The summary of the questioned excess "mission and placement" outlays follows:

Agreement	Excess Amount	Rate not submitted for negotiation	Schedule
EQ82906501	$ 59,594	$ 459,609	2.1
EQ82898601	148,877	557,397	2.2
EQ83166001	107,374	499,323	2.3
EQ83103201	17,259	149,501	2.4
EQ82797401	180,563	436,657	2.5
Total	**$ 513,667**	$2,102,487	

Source OIG analysis of recorded costs/reported outlays.

Note 3: See the **Results of Examination,** page 5, for the discussion of unsupported indirect outlays of $2,647,855.

Note 4: See the **Results of Examination,** page 10, for the discussion of the excess cash draws and other costs incurred after the grant project period.

Schedules of Excess Mission and Placement Costs

In Schedule 1, Note 2, we questioned “mission and placement” costs of $513,667 identified to the EPA agreements in excess of actual outlays incurred. The following schedules detail the questioned excess outlays by agreement. Beginning June 1, 2006, the Recipient revised its accounting system to identify “mission and placement” costs as a direct cost, and did not use a “mission and placement rate,” therefore, we used N/A (not applicable) for that period.

Schedule 2.1
Agreement EQ82906501

Period	Total Stipend	Mission and Placement Rates			Excess Amount
		Recorded	Actual	Difference	
CY 2001	$ 96,645	23.09%	16.83%	6.26%	$6,050
CY 2002	200,388	23.09%	18.88%	4.21%	8,436
CY 2003	465,121	23.09%	17.15%	5.94%	27,628
CY 2004	931,602	24.12%	23.16%	.96%	8,943
1/1/2005 - 6/30/2005	85,958	24.00%	18.04%	5.96%	5,123
7/1/2005 - 12/31/2005	64,296	23.35%	18.04%	5.31%	3,414
1/1/2006 - 5/31/2006	17,756	23.09%	32.47%	(9.38%)	0
6/1/2006 – 9/30/2006	51,596	N/A	N/A	N/A	
Total	**$ 1,913,362**				**$59,594**

Schedule 2.2
Agreement EQ82898601

Period	Total Stipend	Mission and Placement Rates			Excess Amount
		Recorded	Actual	Difference	
CY 2001	$ 299,910	23.09%	16.83%	6.26%	$ 18,774
CY 2002	1,164,240	23.09%	18.88%	4.21%	49,015
CY 2003	1,209,592	23.09%	17.15%	5.94%	71,850
CY 2004	159,195	23.09%	23.16%	(.07%)	0
1/1/2005 - 6/30/2005	34,873	23.09%	18.04%	5.05%	1,761
7/1/2005 - 12/31/2005	148,065	23.09%	18.04%	5.05%	7,477
1/1/2006 - 5/31/2006	8,452	23.09%	32.47%	(9.38%)	0
6/1/2006 – 9/30/2006	80,380	N/A	N/A	N/A	
Total	**$ 3,104,707**				**$ 148,877**

Schedule 2.3
Agreement EQ83166001

Period	Total Stipend	Mission and Placement Rates			Excess Amount
		Recorded	Actual	Difference	
CY 2004	$ 315,831	25.00%	23.16%	1.84%	$ 5,811
1/1/2005 - 6/30/2005	480,620	24.98%	18.04%	6.94%	33,355
7/1/2005 - 12/31/2005	980,001	25.00%	18.04%	6.96%	68,208
1/1/2006 - 5/31/2006	336,748	25.00%	32.47%	(7.47%)	0
6/1/2006 – 9/30/2006	766,387	N/A	N/A	N/A	
Total	**$ 2,879,587**				**$ 107,374**

Schedule 2.4
Agreement EQ83103201

Period	Total Stipend	Mission and Placement Rates			Excess Amount
		Recorded	Actual	Difference	
CY 2003	$ 10,610	23.09%	17.15%	5.94%	$630
CY 2004	393,893	23.75%	23.16%	.59%	2,324
CY 2005	125,070	24.62%	18.04%	6.58%	8,230
7/1/2005 - 12/31/2005	87,412	24.99%	18.04%	6.95%	6,075
1/1/2006 - 5/31/2006	23,349	25.00%	32.47%	(7.47%)	0
6/1/2006 – 9/30/2006	130,709	N/A	N/A	N/A	
Total	**$ 771,043**				**$ 17,259**

Schedule 2.5
Agreement EQ82797401

Period	Total Stipend	Mission and Placement Rates			Excess Amount
		Recorded	Actual	Difference	
CY 2000	$ 748,378	23.09%	12.36%	10.73%	$ 80,301
CY 2001	810,151	23.09%	16.83%	6.26%	50,715
CY 2002	308,264	23.09%	18.88%	4.21%	12,978
CY 2003	615,640	23.09%	17.15%	5.94%	36,569
1/1/04 – 9/30/04	190,837	23.09%	23.16%	(.07%)	0
Total	**$ 2,673,270**				**$ 180,563**

Source: The source of Schedules 2.1 through 2.5 was the OIG analysis of recorded costs/reported outlays.

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*, dated January 14, 2005. We conducted this examination to express an opinion on the Recorded Costs/Reported Outlays by Agreement, and determine whether the Recipient complied with all applicable laws and regulations, as well as any special requirements under the agreement. We conducted our field work from November 29, 2006, through March 9, 2007.

In conducting our examination, we performed the following procedures:

- We reviewed the cooperative agreements and project files to obtain background information on the Recipient and the agreements.

- We interviewed the Recipient's personnel to understand the current accounting system and the applicable internal controls as they relate to the reported outlays. Prior to our audit, all of the Recipient's senior accounting personnel had terminated employment and the current staff did not have knowledge of the prior accounting system and internal controls for recording financial information in the prior system. Therefore, we based our review on transactions testing only for those costs.

- We reviewed the most recent single audit reports to identify issues which may impact our examination.

- We examined the recorded costs/reported outlays on a test basis to determine whether the outlays were adequately supported and eligible for reimbursement under the terms of the agreements and Federal regulations and cost principles.

- We reviewed the cooperative agreements to identify activities the Recipient was to perform and evaluated the activities it accomplished.

Appendix B

Recipient Response

June 5, 2007

Richard Valliere
EPA, Office of Inspector General (OIG)
One Congress Street
Suite 1100
Boston, MA 02114-2023

Dear Mr. Valliere,

Please accept this letter as the response to the Draft Attestation Report dated May 7, 2007. I have made comments or responses in the same order as they appear in your report.

1. Unsupported Indirect Outlays
    A. The Organization had submitted indirect cost proposals to the EPA for negotiation in several of the years covered under the audit period. The EPA never responded to the submission of these reports or assigned an indirect rate other than in year 2004. The EPA has given the impression that it did not care about these reports until it was time for an audit.
    B. In indirect rate was assigned at 18.14% for 2004. There were some billing errors that used either 18% or 19%.
    C. The provisional rate of 18.14% was used in 2005 even though actual rates were running in the area of 23%. As later approved by our cognizant agency.
    D. There were no employees from ECO left on staff during the audit period that would have had first hand knowledge of the transactions in question. Simply determining that they are unallowable is considerably different than the standard of reasonableness.
    E. The Organization summarized data in a short period of time from historical records for which no person was on staff that prepared the information. This was not a submission or negotiation of an indirect rate. Even with items that may have been unallowable costs excluded from the calculation of indirect costs, the rate billed was still less than the actual funds spent.

2. Unsupported “Mission and Placement” Outlays
    A. It would appear that no Mission and Placement rate was negotiated. However, there was a calculation made annually to provide for reimbursement of these costs and those calculations were provided.
    B. There would certainly be differences with documentation and calculations of rates made by people no longer employed by the organization and calculated as much as six years ago.

C. The Organization applied costs to agencies rather than by actual project. This may cause some discrepancy on an individual award within the particular agency but certainly not with in that agency since the costs were allocated based on a level of activity or volume. This hardly seems to warrant the disallowance of all expenses.

3. Unsupported Salaries and Wages
   A. Time sheets for program staff were completed but not assigned to specific contracts or awards.
   B. Most staff employees performed administrative functions only, such as accounting, human resources or administrative duties.
   C. The purely administrative staff's time was charged to indirect expenses.
   D. Program Managers were the only billable people spending time on contracts or awards.
   E. The program staff had very little, if any, administrative time.
   F. The job title and description for the program staff specified the duties they would perform, which is entirely billable.
   G. Some staff had job titles such as EPA Program Coordinator. Their position required they recruit staff and manage EPA Programs only.
   H. The same is the case for other program managers with other specific agencies.
   I. There were two managers that had any significant allocation of their time across several agencies. With job titles such as Federal Programs Manager this would make sense.
   J. The rate at which time was charged to agencies would approximate the activity level with those agencies.
   K. Applying time by tiny increments to specific task orders is highly unrealistic. Even though you will be complying with the A-122, in reality you are really pretending to track costs. Using allocation of time based on level of activity, especially when all the awards provide for the same activity, makes much more sense and is infinitely more accurate.

4. Unsupported and Unallowable Relocation Outlays
   A. The EPA awards offered relocation assistance even though it was an award that did not allow for interns to spend more than 9 months on any particular assignment. Therefore, it was reasonable to expect that the "relocation" the EPA was offering was not in the context of the relocation definition in the A-122.
   B. In many instances it was the Project Advisor from the EPA who offered the "relocation" to the intern as further enticement to secure a particular candidate who would not normally accept the position at the pay rate offered.

5. Written Accounting Procedures Did Not Meet Standards
   A. The entire accounting staff of ECO had left the Organization by the summer of 2006.
   B. The department was staffed with people with actual accounting degrees and experience by fall of 2006.

C. During the following months the entire department and much of the other administrative staff was bogged down by requests for historical information in the course of the audit, not to mention trying to keep the existing activity current. This left precious little time to document a new accounting procedure.

6. Single Audit Not Complete
   A. The audit was almost impossible to complete while an ongoing EPA audit is happening at the same time.
   B. The outcome of the audit was of great interest to our accountants.

7. Noncompliance with Federal Reporting Requirements
   A. The submission of the Federal Cash Transactions Reports (SF272) was not practical with out the completion of the EPA audit.
   B. Any declarations signed by the preparer could be considered untruthful if adjustments were made to the prior period. This was a “catch 22” situation.

If you have any question please do not hesitate to contact me.

Sincerely,

Kevin D. Carter, CPA
Director of Finance and Accounting

Appendix C

Distribution

Office of the Administrator
Director, Grants and Interagency Agreement Management Division (Action Official)
Director, Office of Grants and Debarment
Audit Followup Coordinator, Office of Grants and Debarment
Assistant Administrator for Enforcement and Compliance Assurance
Agency Followup Official (the CFO)
Agency Followup Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
General Counsel
Acting Inspector General