



United States Department of Agriculture
Office of Inspector General





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AUDIT
NUMBER: 08703-0001-AT

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Thelma Strong
Chief Financial Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Forest Service's Use of Recovery Act Funds for Wildland Fire Management on
Federal Lands

This report presents the results of the subject audit. Your written response to the official draft, dated September 4, 2012, excluding attachments, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's (OIG) position are incorporated in the relevant finding and recommendation sections of the report. Based on your response, we were able to accept management decision on Recommendations 3, 4, 5, 6, 7, and 10. However, we are unable to accept management decision on Recommendations 1, 2, 8, and 9. Documentation or action needed to reach management decision for these recommendations is described under the relevant OIG position sections.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days, describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Forest Service's Use of the American Recovery and Reinvestment Act Funds for Wildland Fire Management on Federal Lands

Executive Summary

The American Recovery and Reinvestment Act (Recovery Act) provided Forest Service's (FS) Wildland Fire Management (WFM) program with an additional \$250 million to fund program activities on Federal lands, such as hazardous fuels reduction, forest health protection, and woody biomass utilization.¹ FS awarded over \$199 million in Recovery Act funds to 113 national WFM projects on Federal lands.² Of these, we reviewed the 4 largest dollar national projects with 47 associated contracts, grants, and agreements, as well as 5 biomass utilization grants. We evaluated FS' controls over the procurement and oversight of these WFM projects. During our fieldwork, we expanded our testing to evaluate whether FS ensured contractor compliance with employee-related award provisions. For this, we selected 14 contracts from the 4 national projects for an enhanced review of company activities.

Generally, we found FS timely obligated Recovery Act funds in accordance with Recovery Act goals and that funds were appropriately allocated to WFM program activities.³ However, we determined that FS needs to improve its field-level control systems for monitoring contractor and grantee compliance with requirements to verify that their employees are legally authorized to work in the United States, inform and pay workers mandated wages and benefits, and accurately track and monitor the use of grant funds.

The *Federal Acquisition Regulation* requires contractors to enroll in and use E-Verify, an internet-based system operated by the Department of Homeland Security in partnership with the Social Security Administration. This system allows an employer to verify if an employee is legally authorized to work in the United States. However, FS lacks policies or procedures to ensure that contractors enroll in and perform E-Verify checks. Officials believed it would be too time-consuming for field staff to enforce the E-Verify clause for every contract. For the 14 contracts we reviewed, FS did not take necessary steps to monitor companies' compliance. We found four companies that did not enroll in E-Verify, while five other companies did not check every employee in the system. Thus, 9 of the 14 companies did not check 149 of their employees for authorization to work in the United States. While E-Verify does not conclusively determine legal status, not checking employees increases FS' risk of contractors employing unauthorized workers on Federal contracts.

Another contract award provision, related to the Service Contract Act,⁴ mandates that contractors educate and pay their employees minimum wages and benefits as set by the Department of Labor (DOL). However, FS does not have effective policy and procedures for ensuring contractor

¹ FS obligated approximately \$248 million for WFM projects on Federal lands, wood-to-energy grants, and the oversight of all WFM projects. The agency has \$2 million available for cost adjustments to the existing projects, or it may return these funds to the Treasury after September 30, 2015.

² The amount of current obligations as of January 24, 2012, for WFM projects on Federal lands only, and does not include wood-to-energy grants and FS oversight expenses for all WFM projects.

³ FS obligated its Recovery Act funds for WFM on Federal lands by September 30, 2010.

⁴ The Service Contract Act of 1965, United States Code, Title 41, parts 351 and 352.

compliance with the Service Contract Act. FS officials said they could not enforce every contract provision and relied on DOL to enforce this provision, due to its high volume of service contracts. In reviewing two FS regions responsible for ensuring compliance, we found one did not develop procedures to monitor compliance with the Service Contract Act, while the other did, but did not detect problems with four companies. FS officials believed they were not responsible for enforcing the Service Contract Act as DOL was responsible for monitoring. DOL does enforce the Service Contract Act's requirements, although it primarily responds to complaints received. The *FS Contract Administration Handbook* gives contracting officials responsibility over contract administration that includes monitoring wage problems related to the contract. Also in the past, FS has used its authority to enforce the Service Contract Act. As a result of the lack of oversight of this provision, 6 companies we reviewed underpaid 92 employees by almost \$25,000. In one case, a contractor underpaid 33 employees by almost \$5 an hour.

In our review of the Recovery Act-funded Woody Biomass Utilization Grant Program,⁵ we found that FS does not have adequate procedures for its program managers to effectively monitor grantees. FS procedures allowed, but did not require, program managers to conduct post award meetings, review accounting and equipment records, and conduct site visits. A grantee who received \$2.5 million in grant funds (25 percent of the program's funds) did not track grant funds separately from company funds, submit required quarterly reports, or maintain proper records of equipment in which FS had a security interest. FS officials said post-award meetings were not required for all awards since the agency has longstanding partnerships where the awardees clearly understand their responsibilities. The agency ensures that applicants have financial strength and capability before an award is made, and requiring these meetings would be a burden to longstanding partners. However, the grantee in question was a first-time Federal award recipient who claimed he was not aware of the award requirements. A post-award meeting between FS and a first-time or infrequent award recipient would be beneficial to explain the award's requirements and the grantee's responsibilities.

As a result, FS could not discern whether the company used the \$2.5 million grant funds for the intended purpose, nor could FS accurately determine its share in equipment purchased by the grantee. According to the grant budget, FS had a potential interest in \$1.5 million of equipment purchased with grant funds—yet upon grant completion, FS only claimed a share in \$26,101 of equipment. The grant award budget listed five items under equipment; however, only components of one of those items were included in the final equipment inventory. The FS program manager monitoring the grant tracked individual parts used to assemble the equipment instead of accounting for the equipment as one item. FS does not have written guidelines on how to inventory equipment in which it has a security interest. Ultimately, FS risks losing its investment if the grantee transfers or sells the equipment to a new owner.

Recommendation Summary

We recommend that FS develop and implement policies and procedures for ensuring its contractors enroll in and use E-Verify, and its service contractors comply with the

⁵ Biomass refers to by-products of forest management such as trees and woody plants, including limbs, tops, needles, leaves, and other woody parts.

Service Contract Act provisions in their awards. FS should develop guidance for contracting officer representatives to distribute at post-award conferences that explain contractors' responsibilities for E-Verify. Further, FS should determine if corrective actions are needed for the 14 contractors that did not enroll in and properly use E-Verify, and ensure the 6 contractors have reimbursed their underpaid employees.

For grants, we recommend FS revise its grant award letters to clearly notify grantees of their responsibilities and the award's requirements, and require post award meetings for first-time or infrequent award recipients to discuss these terms. FS should develop policies and procedures to ensure program managers conduct ongoing reviews of grantees' financial and equipment records, and define how program managers account for equipment purchased by grantees. Finally, we recommend FS officials (1) review the grantee's accounting records for the \$2.5 million grant and ensure the expenditures were in accordance with the approved grant budget, and (2) obtain an accurate equipment inventory.

Agency Response

FS officials generally agreed with the findings and recommendations in the report. They proposed corrective actions to alleviate the cited issues. Excerpts from their response have been incorporated into relevant sections of the report, and their entire response, dated September 4, 2012, is included at the end of this report.

OIG Position

Based on the agency's response, we accepted management decision for all recommendations, except Recommendations 1, 2, 8, and 9. Additional information or actions needed to achieve management decision are presented in the OIG Position after each of these recommendations.

Background and Objectives

Background

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act⁶ (Recovery Act) to (1) promote economic recovery and preserve and create jobs; (2) assist those impacted by the recession; (3) provide investments needed to increase economic efficiency; (4) invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and (5) stabilize State and local government budgets. The Office of Inspector General's (OIG) role, as mandated by the Recovery Act, was to oversee agency activities and to ensure funds were expended in a manner that minimized risk of improper use.

The Recovery Act provided Forest Service (FS) with \$1.15 billion in Recovery Act funding to help support its mission and create private sector jobs in economically distressed areas. Of the \$1.15 billion, \$500 million was allocated for FS' Wildland Fire Management (WFM) projects through fiscal year (FY) 2010. Of the \$500 million, the Recovery Act allocated \$250 million to WFM projects on Federal lands. The remaining \$250 million went towards WFM projects on non-Federal lands. For Federal lands, the Recovery Act funded WFM projects for hazardous fuels reduction,⁷ forest health protection,⁸ rehabilitation, hazard mitigation, and biomass utilization.⁹ These projects included activities such as tree thinning, pruning, and piling and burning underbrush. The Recovery Act also allowed up to \$50 million of the \$500 million in WFM funds for wood-to-energy grants to promote increased biomass use from Federal, State, and private lands.

FS distributed WFM Recovery Act funds through a combination of competitive contracts, grants, and agreements¹⁰ to carry out 113 national projects, totaling over \$199 million, on Federal lands (see exhibit B). Many of the national projects were composed of several individual projects with similar descriptions submitted by regional and field offices. These projects were usually located within the same State or in the same area. FS awarded 8 of the 113 national projects as biomass utilization grants, totaling \$10 million, through the Woody Biomass Utilization Grant Program.

Of these 113 national projects, we reviewed the 4 largest dollar national projects with 47 associated contracts, grants, and agreements, as well as 5 biomass utilization grants. In total, we reviewed 41 contracts, 6 grants, and 5 agreements from 9 national WFM projects on Federal lands (see exhibit C).

⁶ Public Law 111-5, The American Recovery and Reinvestment Act of 2009, referred to as the Recovery Act.

⁷ Hazardous fuels reduction is the treatment of living or dead combustible materials that reduces the potential spread or consequences of fire.

⁸ Forest health protection prevents and controls damage to forests caused by human actions, pests, and pathogens, and by storms, frost, and other climatic agents.

⁹ Biomass utilization is the harvest, sale, or trade of trees and woody plants to produce bioenergy and biobased products.

¹⁰ These agreements include participating and cooperative agreements.

FS developed its official program direction for the Recovery Act, which established the agency's mission, goals, and objectives, and is meant to ensure agency compliance with the accountability and transparency requirements of the Recovery Act, as well as Office of Management and Budget guidelines. FS provided the Recovery Act program direction to its regional and field offices. The program direction also established performance measures and required that information on awards (contracts, grants, and agreements) be displayed on www.recovery.gov.¹¹

To support contracts, grants, and agreements associated with Recovery Act funding, FS established four Economic Recovery Operations Centers (EROC) in Vallejo, California; Sandy, Oregon; Denver, Colorado; and Atlanta, Georgia. The EROC staff, which was headed by two leads at each EROC (one for grants and agreements and one for contracting), executed and administered projects funded through the Recovery Act. The *FS Contract Administration Handbook* and Recovery Act program direction state that contracting officers at the EROCs were responsible for contract administration.¹²

The EROCs relied on field-level contracting officer representatives (COR) to provide day-to-day monitoring and oversight for Recovery Act contracts. The contracting officers are legally responsible for the actions of the CORs and for “designating contracting officer representatives to deal directly with the contractor at the work site to administer the contract.”¹³ For grants and agreements, EROCs relied on program managers at the regional offices to perform “ongoing and periodic” assessments of grantees’ program activities and their financial compliance with grant terms.¹⁴

When Recovery Act funds expired at the end of FY 2010, the EROCs no longer awarded new contracts, grants, or agreements. At the start of FY 2011, EROCs’ responsibilities were transferred to the appropriate FS regions. Each region was responsible for developing its own internal process plan for administering and monitoring Recovery Act awards.

E-Verify became a requirement for Federal contracts in September 2009 after the Recovery Act was passed and FS was required to include an E-Verify provision in subsequent contract awards.¹⁵ E-Verify is an internet-based system that allows an employer to confirm if an employee is legally authorized to work in the United States, based on the identification an employee provides to an employer. Once checked, the employer receives either a positive verification that an employee can legally work in the United States, or receives a notice that the employee has an unverified employment status. This means that the system could not confirm whether the employee is legally authorized to work in the United States, but does not necessarily mean that an employee is illegally working. A full background investigation by the Department of Homeland Security (DHS) is required to conclusively determine a worker’s status. If a contractor receives a notice of unverified employment status that the employee does

¹¹ This website was created to show the American public how Recovery Act funds are being spent by recipients of contracts, grants, and loans, and the distribution of Recovery entitlements and tax benefits.

¹² *FS Contract Administration Handbook*, FSH 6309.11 (January 1991).

¹³ *FS Contract Administration Handbook*, FSH 6309.11, 4.1(1) (January 1991).

¹⁴ FS Recovery Act Program Direction (June 26, 2009).

¹⁵ Agreements were not subject to E-Verify requirements, nor are contracts signed before September 8, 2009.

not successfully contest, the employer may terminate the employee based on the E-Verify result.¹⁶

A Service Contract Act-related provision is required to be included in all Federal service contracts above \$2,500, and requires employers to notify and pay their employees minimum wages and benefits set by the Department of Labor (DOL).¹⁷ The *Federal Acquisition Regulation* (FAR), Service Contract Act policies, FS' Recovery Act program direction, and FS handbooks provided guidance to ensure compliance with the Service Contract Act-related and E-Verify-related provisions and other clauses included in Recovery Act awards.

We relied on the audit of "*Oversight and Control of FS Recovery Act Activities*" (Audit 08703-0001-HY, September 2011) for its evaluation of Recovery Act-related internal controls developed by FS' national office. This current audit focused on how EROC, regional, and field offices implemented the national office's internal controls and the use of Recovery Act funding for WFM projects on Federal lands.

Objectives

Our overall audit objective was to (1) evaluate the internal controls related to Recovery Act projects at field offices to ensure WFM projects on Federal lands met the goals and requirements of the Recovery Act, and (2) determine whether FS timely obligated and effectively spent Recovery Act funds. Specifically, we evaluated the field offices' implementation of controls over WFM projects for (1) acquisition and procurement; (2) disbursement of funds; (3) compliance with Recovery Act criteria; and (4) management monitoring and oversight.

¹⁶ U.S. Citizenship and Immigration Services, E-Verify for employers, "DHS Tentative Non-Confirmation," and "Social Security Administration (SSA) Tentative Non-Confirmation," October 4, 2010.

¹⁷ The Service Contract Act of 1965, United States Code (U.S.C.), Title 41, parts 351 and 352.

Section 1: FS Needs to Improve Controls Over Contract Enforcement

Finding 1: FS Did Not Ensure Recovery Act Funds were Awarded to Contractors that Verified their Employees' Eligibility to Work in the United States

The FAR requires Federal contractors and subcontractors to enroll in and use the E-Verify system. E-Verify is an internet-based system that allows an employer to confirm if an employee is legally allowed to work in the United States. The FAR also provides guidance and timelines for completing E-Verify checks.¹⁸ For the 14 contracts we reviewed for E-Verify compliance, FS officials did not take steps to monitor contractors' and subcontractors' compliance with E-Verify requirements. Though FS modified its standard contracts to include a clause requiring contractors to use E-Verify, FS officials did not establish or implement policies or procedures for FS staff to ensure that contractors enrolled in E-Verify and performed the required checks. Instead, FS officials said that they followed an informal policy of taking actions only when an E-Verify problem was brought to their attention. FS officials stated they were not aware of problems for the 14 contracts until we notified them that 4 of the 14 companies had not enrolled in the E-Verify system. Overall, we found 9 of the 14 companies did not check 149 of their employees in the system. While E-Verify does not conclusively determine the legal status of an employee, not checking employees increases FS' risk of contractors employing illegal workers on Federal contracts.

FS national guidance related to E-Verify directs on-site personnel to report immigration issues to the appropriate oversight agency.¹⁹ The *FS Contract Administration Handbook* and Recovery Act program direction state that contracting officials are responsible for contract administration.^{20, 21} The contracting officials designate CORs to deal directly with contractors, and contracting officials are legally responsible for COR actions.²² FS national officials said that contracting officials and CORs did not have the resources to monitor all contract provisions, including E-Verify.²³ While we agree that monitoring whether companies check all employees may be unduly burdensome, we believe FS can take steps to ensure that a company is enrolled in E-Verify before award work begins, as well as perform periodic tests to verify compliance. For instance, a company can prove it is enrolled in E-Verify by providing a printout of an E-Verify system webpage.²⁴ Requiring a company to bring this printout to the post-award conference—where CORs and contractors discuss award requirements and contract plans—would not add unnecessary burden for FS field staff.

¹⁸ FAR, subpart 22.18 and 52.222-54, effective September 8, 2009.

¹⁹ *FS Contract Administration Handbook*, FSH 6309.11, 11.34, December, 17 2007.

²⁰ *FS Contract Administration Handbook* 6309.11, "Contract Administration," January 1991.

²¹ FS Recovery Act Program Direction, June 26, 2009.

²² *FS Contract Administration Handbook*, FSH 6309.11, 4.1(1), January 1991.

²³ FS national officials said that if a contractor does not comply with E-Verify provisions after notification, FS could take punitive actions, including contract termination. In the contracts we reviewed, this never occurred.

²⁴ U.S. Citizenship and Immigration Services, *E-Verify Supplemental Guide for Federal Contractors*, September 2010.

Within our sample of 36 contracts,²⁵ we randomly selected 14 contracts to determine whether FS officials verified the contractors' compliance with E-Verify provisions. We visited 17 companies (contractors and subcontractors) awarded the 14 selected contracts to determine whether FS ensured they were enrolled in E-Verify and whether the companies were in compliance with the award provision. Two of the 17 companies' awards were prior to the E-Verify requirement and one company did not hire employees; thus, we reviewed the remaining 14 companies' compliance with the E-Verify clause. We found that for the 14 companies, FS did not ensure that contractors complied with the E-Verify provisions in their contract.

Of the 14 selected awards, FS Region 6 officials were responsible for monitoring 12 of the contracts, while Region 5 officials were responsible for 2. FS' Region 6 issued a fact sheet for companies, which stated that field officials will perform inspections to ensure compliance with E-Verify.²⁶ However, Region 6 did not have written procedures to implement this fact sheet. We found that three of the four companies that had never enrolled in E-Verify were in Region 6 and FS officials had not conducted inspections to ensure compliance with E-Verify. Company representatives said they were unaware of the requirement or did not know how to complete the process—despite the fact sheet's explanation of the requirement and the inclusion of the E-Verify clause in the contract. In addition, the need for additional guidance for field staff was highlighted by one Region 6 official, who stated that he was not clear who had responsibility for E-Verify enforcement—DOL or FS' contracting officials.²⁷ We determined that DOL has no responsibility over E-Verify.²⁸

The E-Verify-related contract clause mandates that employees be checked in the system within 30 days of assignment to a Federal contract or within 90 days of enrolling in the E-Verify system, whichever date is later. If a contractor is already enrolled in E-Verify when the contract is awarded, new employees should be verified within 3 business days of hire, while existing employees that are assigned to the contract should be verified within 30 days of assignment or 90 days of the contract award, whichever is longer. We found that 9 companies in our sample employed 149 workers that were never checked in the E-Verify system. Of these nine companies, four did not enroll in E-Verify, while the other five companies did not check every employee.²⁹ Further, 8 of the 14 companies we reviewed did not timely verify 58 employees. Late E-Verify checks ranged from 3 days to up to 1-year after they were required to be performed. During a site visit, a company representative told us she was unaware of the E-Verify requirement; subsequent to receiving notification of our site visit the company attempted to verify all employees. In total, four companies we reviewed performed E-Verify checks on their employees once we notified them of our site visits. Although these employees were found to be authorized to work in the United States, they were not timely checked in the E-Verify system.

²⁵ Exhibit D explains how our sample of contracts was reduced from 41 to 36.

²⁶ *FS Labor Intensive Service Contract Fact Sheet*, April 21, 2010. www.fs.fed.us/r6/ppm/contract-fact-sheet.shtml.

²⁷ The *Labor Intensive Service Contract Fact Sheet* clearly states that DHS and SSA are responsible for investigating violations.

²⁸ The E-Verify supplemental guide for Federal contractors states that E-Verify is operated by DHS in partnership with SSA.

²⁹ Unverified employment status means that the contractors did not determine whether the employees were legally authorized to work in the United States. We were unable to determine whether these employees are legal or illegal, as to do so would require a full background investigation by DHS.

A national official in FS' acquisition management group expressed concerns that CORs would have difficulty ensuring compliance with the E-Verify-related clause and was reluctant to create specific policies for enforcing the provision. When OIG reiterated that many CORs were confused on how to enforce this provision, the official agreed that acquisition management should clarify the requirements for its field staff and cover E-Verify enforcement in COR training.

OIG previously reported a similar issue in *FS Contracted Labor Crews* (Audit 08001-0002-AT, issued March 2010), which found that FS did not ensure contractors had verified workers' employment eligibility. FS responded by modifying its national fire contract to include a clause requiring contractors to use electronic employment verification. Shortly before our report was issued, an Executive Order made E-Verify a Governmentwide requirement and FS was then required to place E-Verify provisions in all of its contract awards.³⁰ However, FS did not establish or implement any agencywide policies or procedures to ensure that contractors enrolled and performed the required checks.

Based on our results, we conclude FS cannot ensure that Recovery Act-related contracts were awarded to companies that used a legally authorized workforce for WFM projects on Federal lands. Since E-Verify is required for both Recovery Act and non-Recovery Act contracts, we recommend that FS develop written procedures for ensuring contractors enroll in E-Verify, provide contractors with written guidance on their responsibilities, and determine whether corrective actions are needed for the 14 contractors that did not comply with all E-Verify requirements.

Recommendation 1

Develop policies and procedures for contracting officials to ensure contractors enroll in the E-Verify system and to periodically ensure that contractors are properly checking their employees in E-Verify. Incorporate these policies and procedures in the applicable handbook and contracting officer/COR training modules.

Agency Response

In its September 4, 2012, response FS stated:

FS generally concurs with this recommendation. The Agency adheres to the Federal Acquisition Regulation (FAR) guidelines to include FAR 52.222-54, Employment Eligibility Verification. This clause is required and included in all FS solicitations and contracts that exceed the simplified acquisition threshold...

Contracting officers are required to verify that all proposals meet the requirements of FAR 52.222-54 when determining that a contractor is responsible and eligible for an award. FS is currently revising the Forest Service Acquisition Regulation (FSAR) to ensure that the most recent and relevant changes are reflected in agency regulations.

³⁰ Executive Order 12989, June 6, 2008.

Revisions to the FS Contract Administration handbook are planned for the second quarter FY 2013.

COR delegation letters of authority outline the roles and responsibilities for each type of contract. Annual and refresher COR training outlines the basic roles and responsibilities, to include adherence to all applicable regulations, FAR, and agency supplemental clauses. One of the main responsibilities for any COR is to report any contract violations they become aware of to the contracting officer for action and resolution.

In response to this audit recommendation, the Washington Office (WO) Acquisition Management (AQM) staff will issue a letter reminding CORs of the E-Verify requirement and reference E-Verify in the revisions to the FSAR and FS Contract Administration Handbook (FSH 6309.11, 11.34) to assure the E-Verify clause is included in solicitation and contracts, as applicable. [FS expects to complete these actions by June 2013.]

OIG Position

We cannot accept management decision for this recommendation. FS has not developed monitoring policies and procedures for contracting officials to ensure contractors are enrolled in and properly checking their employees in the E-Verify system. These policies and procedures should be incorporated during the planned revisions to the *FS Contract Administration handbook*.

Recommendation 2

Develop guidance that clearly explains a contractor's responsibilities for E-Verify for CORs to distribute at the post-award conference.

Agency Response

In its September 4, 2012, response FS stated:

FS does not concur with this recommendation. The Employment Eligibility Verification clause is required and included in all FS solicitations and contracts that exceed the simplified acquisition threshold...

In response to this audit recommendation, the WO AQM will issue a letter reminding CORs of the E-Verify requirement and that the clause should be included in solicitations and contracts, as applicable, per the FAR guidelines. The agency will also reference E-Verify in the revisions to the FSAR and FS Contract Administration Handbook (FSH 6309.11, 11.34), as applicable. [FS expects to complete these actions by June 2013.]

OIG Position

We cannot accept management decision for this recommendation. FS has not developed guidance for CORs to distribute to contractors during post-award conferences. The E-Verify clause was included in the solicitations and contracts that we reviewed, but contractors did not implement the clause, thereby requiring additional monitoring actions by the FS CORs.

Recommendation 3

Follow up and determine whether corrective actions are needed for the 14 contractors that did not enroll in E-Verify, did not check all their employees, or were late in performing E-Verify checks.

Agency Response

In its September 4, 2012, response FS stated:

FS generally concurs with this recommendation. The Agency will review the 14 contractors that did not enroll in E-Verify, did not check all their employees, or were late in performing E-Verify checks and take the necessary corrective actions as applicable. [FS expects to complete these actions by June 2013.]

OIG Position

Based on the agency's response, we accept management decision for this recommendation.

Finding 2: FS Lacks National Policies to Ensure Contract Employees Are Paid Minimum Wages

In our review of 15 companies, we found 6 companies that underpaid 92 of their 216 employees almost \$25,000. In one case, a contractor underpaid 33 employees by almost \$5 an hour. FS lacked guidance and requirements for monitoring WFM contractors' compliance with the Service Contract Act contract provisions. FS staff in one of the two regions we reviewed did not take any steps to monitor contractor compliance with the Service Contract Act for WFM service contracts awarded to two companies. Further, the second region, which did take monitoring steps, did not have adequate guidance to conduct effective labor compliance interviews and missed detecting problems in four companies. While FS does include Service Contract Act provisions in its awards, it does not have nationwide policies for verifying compliance with the Service Contract Act's minimum wage and benefit requirements. FS national officials believed that DOL was responsible for monitoring compliance with the Service Contract Act—even though the Service Contract Act gives agencies authority to withhold payments or terminate contracts if they discover violations.³¹

³¹ Service Contract Act, U.S.C., Title 41, part 352.

The Service Contract Act of 1965 requires all Federal service contracts above \$2,500 to reference the Service Contract Act and include a listing of minimum wages set by DOL.³² The FAR requires contracting officials to include a clause in service contracts stating that Federal contractors will notify and pay their employees these wages.³³ The *FS Contract Administration Handbook* gives contracting officials responsibility over contract administration and lists 17 duties a contracting official may delegate to a contracting representative, including monitoring wage problems related to the contract.³⁴

FS national officials explained that they did not create national policies to verify compliance with the Service Contract Act because they believed that monitoring the Service Contract Act was DOL's responsibility. DOL's Wage and Hour Division does enforce the Service Contract Act's requirements; however, it primarily responds to complaints made by contracting agencies or individuals. However, FS used its own authority to enforce the Service Contract Act in one case from Region 5, requiring the contractor to pay the proper wage rate to 33 of its employees, when we brought the underpayments to its attention.

National office officials also said that FS does not have the resources to enforce every contract provision, including the Service Contract Act. While we acknowledge that employee interviews to verify wages and benefits take time, we note that CORs frequently conduct site visits where they are in contact with employees. We also note that 6 of the 16 CORs in our review did find time to conduct employee interviews during their normal contract monitoring. For instance, sampling a limited number of contracts and conducting employee interviews on a normally scheduled site visit would provide some oversight without placing an undue burden on field staff. Therefore, we believe CORs could verify compliance with the Service Contract Act-related provision when conducting site visits to monitor work completed.

From our nationwide sample of 36 contracts,³⁵ we selected 14 service contracts to determine whether FS officials verified the contractor's compliance with Service Contract Act provisions. We then visited the 17 contractors and subcontractors awarded these 14 service contracts. Two of these contractors did not hire employees; thus, we only reviewed 15 contractors' and subcontractors' compliance with the Service Contract Act. During our site visits, four companies told us that the assigned COR did not interview their employees to ensure they were receiving proper wages and benefits.

CORs in one region we reviewed did not review service contracts for compliance with the Service Contract Act while another region had supplemental policies to review compliance. One COR told us they believed it was not their job to check whether service contractors complied with the Service Contract Act's provisions. Further, a lead contracting officer we interviewed reiterated the FS national office position that DOL enforces the Service Contract Act. The contracting officer believed this because FS did not have a requirement for field staff to verify contractors' compliance. This illustrates the need for the agency to establish written guidance on the Service Contract Act.

³² U.S.C., Title 41, part 351.

³³ FAR, volume 1, subpart 22.10 (March 2005).

³⁴ *FS Contract Administration Handbook* 6309.11, "Contract Administration" (January 1991).

³⁵ Exhibit D explains how our sample of contracts was reduced from 41 to 36.

Region 5 officials—who did not review their service contracts for compliance with the Service Contract Act—said that they do perform employee interviews for construction contracts, but not for service contracts. A national office representative said that construction contracts generally have greater values and longer timeframes than service contracts and, therefore, FS focuses its monitoring efforts on those. Because Region 5 did not monitor its service contracts, 1 of the companies we reviewed underpaid 33 of its employees by almost \$5 an hour. Employees were paid \$9.15 an hour, instead of the minimum \$14.13 assigned to their occupational category—a 35-percent difference in their gross paycheck. Even without performing interviews, a document review by the COR would have likely identified this discrepancy. We did so by comparing employee paystubs and position titles with the applicable wage rates for those positions.

Region 6 had a regional policy in place requiring CORs to take monitoring steps and use FS' labor compliance questionnaire to interview employees to verify that their pay and benefits comply with the Service Contract Act.³⁶ Of the 14 selected contracts, 12 were monitored by FS Region 6 officials. Even though the region's CORs were required to conduct interviews, less than half of the CORs in our Region 6 sample actually performed them.³⁷ In total, four of the six sampled companies with wage issues were monitored by Region 6.

FS national officials told us that, due to the agency's contracting volume, the agency relies on DOL to enforce the Service Contract Act. However, FS officials stated they will notify service contractors to correct wage issues if the agency receives a complaint. Further, if the issue is not resolved, they will report it to DOL and may take punitive action, such as withholding contract payments.

Based on our results, we concluded that FS should develop and implement a national policy to ensure its service contractors comply with the Service Contract Act provisions in their award. Expanding the use of FS' existing labor compliance interview sheet would be a cost-effective way of developing a consistent monitoring method. By developing specific guidance on how contracting officials should periodically interview employees and examine company wage and benefit records, FS can detect whether wage problems exist and prevent future underpayments.

Recommendation 4

FS should develop a consistent and specific methodology involving both employee interviews and examinations of contractor records for verifying compliance with the Service Contract Act award provisions. Incorporate guidance on this method in the applicable handbook and contracting officer/COR training modules.

Agency Response

In its September 4, 2012, response FS stated:

³⁶ *FS Contract Administration Handbook* 6309.11, Region 6 Supplement Number 6309.11-93-7, dated June 1993.

³⁷ We found that 6 of the 16 CORs assigned to the 35 contracts in our sample for Region 6 interviewed employees.

FS concurs with this recommendation. COR delegation letters of authority outline the roles and responsibilities for each contract. Part of the annual and refresher training required for all COR's outlines the basic roles and responsibilities, to include adherence to all applicable regulations, FAR and agency supplemental clauses. One of the main responsibilities for any COR is to report any contract violations to the contracting officer for action and resolution.

CORs are currently delegated the responsibility to conduct inspections for invoices to ensure they are meeting all contractual requirements, to include any applicable wage determinations included in a contract. Revisions to the FS Contract Administration handbook are planned for the second quarter of FY 2013, this topic will be addressed from a policy and procedural aspect.

The WO AQM will issue a letter to CORs regarding training and operational responsibilities to minimize reoccurrence of this finding. [FS expects to complete all of these actions by January 2013.]

OIG Position

Based on the agency's response, we accept management decision for this recommendation.

Recommendation 5

Ensure the six contractors that underpaid wages have reimbursed their employees for the denied wages.

Agency Response

In its September 4, 2012, response FS stated:

FS concurs with this recommendation. FS is reviewing payments to the six identified contractors and will ensure that payment has either been made or this issue has been elevated to the Department of Labor, who is the enforcement agency for wage determination violations. [FS expects to complete these actions by October 2012.]

OIG Position

Based on the agency's response, we accept management decision for this recommendation.

Section 2: FS Needs to Improve Management Oversight of Grant Funds

Finding 3: FS Did Not Effectively Monitor Grant Funds and Equipment Shares

In our review of the Recovery Act-funded Woody Biomass Utilization Grant Program, we found one of the five grantees reviewed did not track grant funds separately from company funds, submit required quarterly reports, or maintain proper records of equipment in which FS had a security interest.³⁸ This grantee received \$2.5 million—25 percent of the program’s funds. The issue went undetected because FS does not have adequate procedures for its program managers to effectively monitor grantees. For instance, though FS requires ongoing assessments of a grantee, it encourages, but does not require, an accounting record review to ensure that expenditures comply with the grant award. As a result, FS could not discern whether the company used grant funds for the intended purpose, nor could FS accurately determine its share in equipment purchased by the grantee. We found that, according to the grant budget, FS had a potential interest in \$1.5 million of equipment purchased with grant funds.³⁹ However, because FS does not have official, written guidelines for the accounting and tracking of equipment items as a whole, FS only claimed a share in \$26,101 of grantee equipment. By not accurately monitoring its share, FS risks losing its investment if the grantee transfers the equipment to a new owner.

FS’ Recovery Act program direction states that program managers are responsible for “ongoing and periodic” assessment of grantees and their financial compliance with grant terms.⁴⁰ The grant award terms include tracking grant funds separately, submitting quarterly reports, and maintaining financial records that compare expenditures to budgeted amounts. FS tracks equipment purchased with grant funds until its value is less than \$5,000.⁴¹ After the grant timeline expires, grantees must provide FS a list of all equipment purchased with grant funds, total costs to acquire each piece, and a detailed description of the equipment.⁴² FS uses this information to calculate its share of the proceeds if and when the grantee sells the equipment. The grant agreement also requires that the grantee establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.

FS guidance encourages—but does not require—program managers to hold and document post-award meetings, review the grantee’s spending in comparison to the FS-approved grant budget, and perform site visits.⁴³ FS guidance does allow accounting record reviews, but does not

³⁸ The Recovery Act’s Woody Biomass Utilization Grant Program awarded eight grants totaling \$10 million for WFM on Federal lands. We reviewed a sample of five of the eight grants.

³⁹ The program defines equipment as tangible, non-expendable property having a useful life of more than 1 year and a fair market value of \$5,000 or more.

⁴⁰ FS American Recovery and Reinvestment Act Program Direction, June 26, 2009.

⁴¹ Equipment Questions & Answers for Woody Biomass Utilization Grants, February 21, 2008.

⁴² *Code of Federal Regulations*, Title 7, part 3019, section 34(f) and section 21(b) (4) and Title 2, part 215, section 21.

⁴³ *FS Contract Administration Handbook* 1509: Grants, Cooperative Agreements, and Other Agreements; and *FS Manual* 1500, “External Relations,” Chapter 1580.

require them, nor does it provide procedures on review methods and frequency of such reviews. Finally, FS provides no guidance on the key points that should be discussed at post-award meetings. FS officials said that a review of recipients' accounting records was not needed, unless the program manager had concerns with a grantee meeting its financial requirements. Such record reviews would be burdensome on grant and agreement recipients. FS officials stated their current guidance ensures that an applicant has acceptable financial strength and capability before an award is made. As for post-award meetings, FS did not have requirements to conduct them since the agency has many long standing partnerships where the parties involved clearly understand their roles and responsibilities. FS believed an across-the-board requirement to hold these meetings was not beneficial to program managers and recipients. We agree that post-award meetings may not be needed in the case of longstanding partnerships; however, a post-award meeting may be vital to a first-time or infrequent grant recipient's understanding of its grant terms and requirements. In this instance, the grantee was a first-time recipient of Federal grant funds.

During our visit to the grantee, we found grant expenditures were not tracked separately from company funds and expenditures were not accounted for according to their approved budget categories. Instead, the grantee accounted for expenditures under general categories that did not take into account all the elements of the FS-approved budget. Because of these accounting methods, it took the grantee 5 months to provide us with records for how its project expenditures reconciled to the budget. When we asked the grantee why he did not maintain a proper accounting, he told us he was unaware of the recordkeeping requirements.⁴⁴ We confirmed that the program manager had not provided the grantee with details about recordkeeping, but did tell the grantee to keep adequate documentation in case of an audit.

For the grant in question, the FS program manager performed several site visits to observe work and equipment purchases, but he did not realize the grantee had not submitted the required equipment inventory at the grant's expiration. The expanded project budget in the approved grant agreement detailed five equipment items on the inventory list: dry kilns for \$600,000; a re-stacker for \$400,000; a building for \$150,000; a steam line for \$300,000; and a co-gen for \$50,000, for a total of \$1.5 million of equipment from the \$2.5 million grant. After our site visit in August 2010, the FS program manager requested the grantee to provide a final list of equipment over \$5,000. In January 2011, the grantee provided a list of equipment items, including some under \$5,000, but did not distinguish what proportion of grant funds and company funds were spent on each piece of equipment listed in the grant budget. Even though the list showed the steam line cost \$420,000, the FS program manager determined that only two component items of equipment should be tracked involving the dry kiln equipment item—a motor control center, valued at \$5,061, and a Tcilotaut interface, valued at \$21,040. Instead of counting the dry kilns as a piece of equipment, they tracked individual parts, valued over \$5,000, that were purchased for the dry kiln's construction. The FS program manager did not track the building, steam-line, and co-gen since he did not view them as equipment but as individual supplies or parts that were built on site. The grantee's final equipment list does not show that the re-stacker machine was purchased with grant funds.

⁴⁴ *Code of Federal Regulations*, Title 7, part 3019, sections 34(f) and 21(b) (4), and Title 2, part 215, section 21.

The program manager stated Federal regulations require FS to track equipment purchased with grant funds that is valued over \$5,000, but does not distinguish whether equipment assembled by the grantee is considered as a whole or by the individual parts used to assemble it. FS does not have official, written guidelines for program managers that clearly define what the agency considers equipment and how it should be tracked (i.e., as a whole or as individual parts). Accounting standards require that property, plant, and equipment costs shall include all costs incurred to bring the asset to a form and location suitable for its intended use, including amounts paid to vendors, labor, engineering, legal, and other costs.⁴⁵ As a result, the Government has not retained its financial interest in approximately \$1.5 million of equipment because it has not established these written guidelines (see exhibit A).

The program manager also conducted a post-award meeting; however, the grantee said that he did not inform the company of FS' share in any purchased equipment, or about recordkeeping requirements. When we asked about the meeting agenda, the program manager had not documented the meeting and could not recall details of what was discussed. However, the FS program manager stated he had disclosed information about FS' share in equipment purchased. Also, the program manager never reviewed the grantee's accounting records or invoices. He explained that financial record reviews are only conducted if the grantee is not performing according to the grant terms. During his site visits, he observed satisfactory progress on the grant project, and believed that a review was not warranted in this case. Finally, we also discovered the grantee did not submit three consecutive quarterly financial reports over a 9-month period. The FS official stated that he overlooked these reports.

FS notifies grantees of their responsibilities by issuing a grant award letter based on a standard template. The award letter references all applicable Federal regulations and provisions. For all five of the biomass utilization grants we reviewed, we found that the award letters did not clearly explain the grant accounting requirements. Instead, the letters briefly mention a requirement or only cite the applicable Federal regulations by title and section number. A grantee would need to look up and read the applicable section in the *Code of Federal Regulations* in order to find out its responsibilities regarding recordkeeping and reporting requirements. The letters also did not adequately explain FS' limits on transfers of equipment bought with grant funds. The letter states that FS "reserves the right to transfer title to the Federal Government of any equipment," but does not clearly outline FS' share in the equipment, or that FS can demand to recoup funds if a grantee transfers the equipment without FS' permission.

During our fieldwork, we discussed this issue with FS regional staff, who informed the national office. When we interviewed national office officials, they agreed with our findings and had already begun to implement corrective actions. We understand that management is in the process of modifying award letter templates to include more explanation of grant recordkeeping requirements and FS' interest in equipment purchased with grant funds. Also, they updated the agency's grant monitoring system to incorporate due date reminders for quarterly reports.

FS needs to develop additional requirements and procedures for monitoring all aspects of the grant award, as well as establish procedures for tracking equipment purchased by grantees. FS

⁴⁵ Statements of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, June 1996.

should also update its grant handbook and manual to reflect the new content in the award letters. By establishing a process to review grantee accounting records, and better informing grantees of their responsibilities, the agency can ensure its ability to recoup its full equipment investment.

Recommendation 6

Review the cited grantee's records and ensure its expenditures were in accordance with the approved grant budget. Obtain an accurate equipment inventory from the grantee that includes the amount of grant funds used on each piece of equipment.

Agency Response

In its September 4, 2012, response FS stated:

FS concurs with this recommendation. FSH 1580.41 9g2e outlines the roles and responsibilities for program managers with regards to on-going monitoring. Moreover, FSH 1509.11 Chapter 81: *Termination*, as well as 7 CFR 3016.43: *Enforcement*, provide guidance on appropriate actions to be utilized, should compliance with the provisions of the award become challenged. Within this context and according to Federal regulation, FS has the authority to review the grantee's records in light of the findings in this audit. Standard provisions detailed in 1509.11 Chapter 91 (for Federal Financial Assistance Awards) include the requirement that the recipient must "forward an equipment inventory to the U.S. Forest Service, listing all equipment purchased with U.S. Forest Service funding through the life of the project."

FS will review the cited grantees' records and ensure the recipient's expenditures were in accordance with the approved grant budget. FS will also obtain a completed equipment inventory list from the grantee that includes the amount of grant funds used on each piece of equipment. [FS expects to complete this work by June 2013.]

OIG Position

Based on the agency's response, we accept management decision for this recommendation.

Recommendation 7

Revise the award letter to include clear language to notify grant recipients of their responsibilities and award requirements.

Agency Response

In its September 4, 2012, response FS stated:

... As noted in the audit report, FS was in the process of modifying the award letter templates to incorporate ARRA specific guidance. The *Federal Financial Assistance Award of Domestic Grants* Template was released in December 2011 for G&A specialist's use to ensure uniformity in all ARRA awards. All grants issued by the FS now include specified terms and conditions/provisions detailing the recipient's responsibilities with regards to how program funds may be used as well as specific reference to the applicable Code of Federal Regulations and OMB circulars, dependent upon the recipient type. ...

OIG Position

Based on the agency's response, we accept management decision for this recommendation

Recommendation 8

In *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook," and *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," include a requirement for program managers to conduct post-award meetings with first-time and infrequent recipients of FS awards and maintain documentation on the results of that interaction.

Agency Response

In its September 4, 2012, response FS stated:

FS concurs with this recommendation. FSH 1580.41g (TAB B) details the roles and responsibilities of program managers including pre-award, administration, monitoring and close-out. FSH 1509.11, Chapter 10: Grants and Agreements Administration part 15.2 (TAB C) stipulates post-award meetings, if desired, should be held within 30 days of award of a new grant, cooperative agreement, or any other agreement type. The purpose of the meeting should be to discuss pertinent administrative requirements such as significant provisions, award requirements, and operating procedures specifically identified in the documents. The Post-Award Meeting is described as an opportunity to define each party's role and responsibilities and to answer any last minute recipient/cooperator questions prior to commencement of work. In addition, Section 15.6 describes methodology for project monitoring as an integral part of post-award administration, and identifies various tools such as performance reports, on-site reviews, telephone calls/desk reviews and financial reviews. Performance reporting alone is a tool that provides written and recorded information that illustrates that recipient/cooperators of Federal funds are meeting their requirements in the agreement as key activities in monitoring projects.

OIG Position

We cannot accept management decision for this recommendation. The referenced handbooks do not include a requirement to hold post-award meetings for first-time award recipients. The handbook simply states that the meeting should be held, if desired, which leaves it up to the program manager's discretion. Also, the handbook does not require that the meeting be documented. The referenced handbooks should be updated to include these requirements. FS should also provide an estimated completion date.

Recommendation 9

Revise *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook" and *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," to include specific requirements for ongoing and periodic reviews of a grantee's financial reports, accounting records, and records of equipment purchased with grant funds.

Agency Response

In its September 4, 2012, response FS stated:

... FSH 1580 and FSH 1509.11, Chapter 10 (15.65) address details of financial reviews. Section 15.6 describes methodology for project monitoring including performance reports, on-site reviews, telephone calls/desk reviews and financial reviews. In addition, should cause be warranted, under OMB, Circulars, and the FS handbook guidance, procedures are in place for enforcement (7 CFR 3019.43) and cooperator performance and termination (FSH 1509 Chapter 81). FSH 1509.11 Chapter 80 (81.2) and 7 CFR 3016.43 details Recipient/Cooperator performance. Given the absence of guidance for equipment purchase and retention, a revision is currently underway on FSH 1509.11 Chapter 90: Standard and Discretionary Provisions and Assurances. [FS expects to complete this work by June 2013.]

OIG Position

We cannot accept management decision for this recommendation. FSH 1580 and FSH 1509.11, Chapter 10 does not sufficiently provide detailed requirements for conducting ongoing and periodic reviews of a grantee's financial reports, accounting records, and records of equipment purchased with grant funds. Currently, the handbook allows for these types of reviews but does not describe circumstances in which program managers should conduct the reviews. As noted, equipment record reviews are not mentioned in the handbooks.

Recommendation 10

In *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook," or *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," include guidelines for program managers that clearly define equipment, the types of equipment tracked for grant purposes, and how equipment constructed by grantees should be tracked.

Agency Response

In its September 4, 2012, response FS stated:

FS concurs with this recommendation. A workgroup has convened to revise the equipment guidelines contained in FSH 1509.11 Chapter 90: Standard and Discretionary Provisions and Assurances. Clarification on topics such as, but not limited to, property and equipment purchases, procurement, title, and record retention are underway. This revised chapter on equipment will provide guidelines for program managers that clearly define equipment, types of equipment tracked for grant purposes, and how equipment constructed by grantees should be tracked. [FS expects to complete these tasks by June 2013.]

OIG Position

Based on the agency response, we accept management decision for this recommendation.

Scope and Methodology

We conducted our audit based on a nationwide sample of WFM projects funded by the Recovery Act. We selected four national projects (made up of multiple contracts, grants, and agreements) and three biomass utilization grants with the highest dollar amounts. We also randomly selected two biomass utilization grants. These nine projects and grants totaled \$66,825,000. We reviewed records at five FS regional offices that supported the nine projects selected. These offices were Albuquerque, New Mexico (Region 3); Ogden, Utah (Region 4); Vallejo, California (Region 5); Portland, Oregon (Region 6); and Madison, Wisconsin (Region 11). In addition, we visited each of the four EROCs located in Atlanta, Georgia; Vallejo, California; Sandy, Oregon; and Denver, Colorado.

We conducted reviews and observed work being performed at the following National Forests: Shasta-Trinity (Redding, California); Umatilla (Pendleton, Oregon); Rogue River-Siskiyou (Medford, Oregon); and Deschutes (Bend, Oregon). For Malheur (John Day, Oregon) and Umpqua (Roseburg, Oregon) National Forests, we reviewed records from the supervisor's office but were unable to perform site visits due to weather restrictions.

Initially, we randomly selected 47 contracts, grants, and agreements from the 4 national projects and 5 biomass utilization grants, totaling \$26,488,984 in awards (see exhibit C). We reviewed the records that included expenditures of \$17,062,681 for all of our selection, but due to weather conditions and difficulty accessing remote areas, we were unable to perform site visits to all 52. In total, we observed future work sites, work being performed, or work that had been completed on 19 contracts, grants, and agreements under the 4 national projects and all 5 biomass utilization grants.

When we subsequently expanded our testing to determine the effect of inadequate controls over E-Verify and Service Contract Act compliance monitoring, we visited contractors at their business offices, as opposed to conducting only project site visits. For this expanded testing, we visited 16 randomly selected contractors and agreement recipients, and 3 subcontractors.⁴⁶

For the five selected biomass utilization grants, we conducted reviews and observed work being performed in: Emmett, Idaho; New Meadows, Idaho; Colville, Washington; Sweet Home, Oregon; Mescalero, New Mexico; and Thompson Falls, Montana. We also interviewed officials in the FS national office throughout our fieldwork. We performed audit fieldwork from March 2010 through May 2012.

At FS regional offices, we examined how they disbursed Recovery Act funds to projects. At all sites, we evaluated the implementation of controls for acquisition and procurement procedures, compliance with Recovery Act criteria, and whether projects were adequately monitored.

⁴⁶ An individual or company hired by the principal contractor or another subcontractor to complete a portion of a contract.

To accomplish our objectives we:

- Interviewed FS officials at the national, regional, or local office levels who were involved in the prioritization and selection of projects, disbursement of funds, acquisition and procurement of contracts, grants, and agreements, and monitoring and oversight.
- Reviewed applicable laws, regulations, agency directives and guidance, Government Accountability Office reports, and prior Office of Inspector General reports.
- Reviewed award and supporting documentation, FS award disbursement records, contract invoices, COR and program manager records, and recipient reports on federalreporting.gov for the 47 selected contracts, grants (non-biomass), and agreements.
- Conducted site visits and spoke with CORs and program managers about the award's progress, reviewed whether the work performed and the funds used complied with the award specifications, observed and photographed work, and interviewed company representatives.
- Analyzed FS' database of WFM Recovery Act projects on Federal land to determine how many contracts, grants, and agreements were awarded under the 113 national projects. We did not assess the internal controls over FS databases. When we visited the 16 statistically selected contractors and cooperators and 3 subcontractors for our expanded testing, we reviewed payroll documents, employee agreements, Form I-9s, and E-Verify documentation. We also interviewed the contractors or subcontractors in charge of the work.

We selected nine national projects, and then randomly selected procurements from within those national projects, for review. See exhibit D for further information on how those projects and procurements were selected.

For the Recovery Act, FS used its existing information technology systems to process, track, and report its normal business activities. We, therefore, did not review, analyze, or verify the controls or oversight of the information technology systems, and made no representation of the adequacy of the systems or the information generated from them.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform our audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings.

Exhibit A: Summary of Monetary Results

This exhibit lists findings and recommendations that had a monetary result, and includes the type of monetary result, amount, and affected project number.

Monetary Results	Finding	Recommendation No.	Recovery Act Project Number	Award Type	Amount
Funds To Be Put To Better Use - Improper Accounting	3	6	WFM-0460-04WTE	Grant	\$1,500,000

Exhibit B: Wildland Fire Management Projects on Federal Lands Funded by the Recovery Act

This exhibit lists all WFM projects on Federal lands with an award amount of \$2 million or more. Information presented shows the project's region, date that funds were obligated to the project, amount of funds obligated, and amount of project expenditures as of January 26, 2012.

Region	Project Number	Obligation Date	Obligations	Expenditures ⁴⁷
6	WFM-06XX-01HF	01/07/10	\$28,128,121	\$18,871,227
5	WFM-05-01HF	08/21/09	11,120,759	8,990,412
6	WFM-0600-1	03/16/09	9,975,889	9,256,475
6	WFM-0604-03HF	06/09/09	9,203,025	9,018,476
26	WFM-2619-02HF	07/06/09	5,931,631	4,928,754
9	WFM-0900-6-HFR	07/01/09	5,807,302	4,280,465
9	WFM-0900-1-HFR	06/22/09	5,757,294	5,169,256
4	WFM-0412-01HF	07/28/09	5,720,201	4,275,057
3	WFM-0301-06M	06/29/09	4,801,873	3,266,989
6	WFM-0616-04HF	6/4/2009	4,673,087	4,239,995
4	WFM-0460-04WTE	07/12/09	4,000,000	4,000,000
3	WFM-NM-01RES	11/24/09	4,000,000	2,558,822
5	WFM-05-01FHF	03/22/10	3,821,662	857,725
3	WFM-0308-3	03/17/09	3,694,351	2,630,633
5	WFM-05-01M	02/22/10	3,641,545	2,413,624
6	WFM-0604-05FHF	10/06/09	3,575,762	2,671,869
4	WFM-0407-04HF	11/25/09	3,446,109	2,123,425
3	WFM-0312-1	03/12/09	3,307,526	3,278,666
4	WFM-0417-03HF	07/10/09	3,205,645	2,847,243
9	WFM-0900-9-HFR	09/22/09	3,075,383	2,634,445
2	WFM-0206-04HF	02/26/10	2,805,412	2,076,576
6	OTH-0600-1W1	04/01/09	2,600,000	2,573,037
1	WFM-0114-13HF	06/04/09	2,508,786	1,938,913
4	WFM-0460-01WTE	07/12/09	2,500,000	2,500,000
3	WFM-0301-1	06/25/09	2,471,971	2,449,205
5	WFM-05-02FHF	12/01/09	2,138,982	1,818,649
1	WFM-0103-05FHF	07/24/09	2,113,540	2,113,540
6	WFM-0601-06HF	11/10/09	2,049,429	1,842,806
3	WFM-NM-01B	12/08/09	2,000,000	1,287,314
		All other projects⁴⁸	51,150,168	41,615,037
		TOTAL	\$199,225,453	\$158,528,635

⁴⁷ As of January 26, 2012.

⁴⁸ As of May 20, 2010, FS awarded Recovery Act funds for 113 projects for WFM on Federal lands. The 84 national projects valued at less than \$2 million each were totaled.

Exhibit C: Contracts, Grants, and Agreements Reviewed

This exhibit provides data about the nine national projects and individual procurements reviewed during the audit fieldwork.

FS Region	National Project Number	Procurement Number	Amount Awarded ⁴⁹	Expenditures ⁵⁰
Pacific Northwest	WFM-06XX-01HF	AG-0489-C-10-0273	\$1,649,312	\$273,900
		AG-0489-C-10-0049	\$587,741	\$451,209
		AG-0489-C-10-0103	\$313,125	\$313,125
		AG-0489-C-10-0066	\$254,720	\$197,648
		AG-0489-C-10-0026	\$213,710	\$213,710
		AG-0489-C-10-0062	\$201,793	\$195,470
		AG-0489-C-10-0266	\$161,700	\$0
		AG-0489-C-10-0220	\$154,502	\$154,502
		AG-0489-C-10-0032	\$101,080	\$33,078
		AG-0489-D-10-0103	\$70,682	\$0
		AG-0489-C-10-0088	\$47,640	\$0
		AG-0489-C-10-389 - Requisition #349931	\$26,785	\$0
		AG-0489-C-10-389 - Requisition #349921	\$11,000	\$0
	WFM-0600-1	09-SA-11060489-024	\$2,422,864	\$1,368,939
		AG-0489-C-10-0382	\$695,349	\$42,255
		AG-0489-D-09-0011	\$433,369	\$431,630
		AG-0489-D-09-0003	\$402,744	\$402,744
		AG-0489-D-09-0009	\$298,521	\$298,521
		AG-0489-K-09-0012	\$213,812	\$213,812
		AG-0489-K-09-0011	\$212,658	\$169,088
		AG-0489-C-10-0346	\$194,011	\$0
		09-PA-11060489-004	\$120,335	\$50,335
		AG-0489-K-09-0006	\$103,300	\$103,300
		AG-0489-P-09-0001	\$60,536	\$60,536
		AG-0489-K-09-0009	\$55,365	\$55,365
		AG-0489-S-10-0410	\$0	\$0
	WFM-0604-03HF	AG-0489-D-10-9002	\$393,484	\$138,107
		AG-0489-C-10-0200	\$299,584	\$269,824
		AG-0489-D-10-9012	\$336,681	\$334,082
		AG-0489-D-10-9003	\$237,200	\$158,743
		AG-0489-C-10-0081	\$164,165	\$132,326
		AG-0489-D-10-9007	\$158,255	\$150,750
		AG-0489-D-10-9006	\$161,019	\$154,882
		AG-0489-D-10-9001	\$108,909	\$108,909
		AG-0489-C-10-0005	\$100,614	\$91,020
		AG-0489-D-10-9008	\$88,279	\$30,752

⁴⁹ Amounts include the original award and additional funds as of the date of our file review.

⁵⁰ Expenditures are as of the date of our file review.

EXHIBIT C – Continued

FS Region	National Project Number	Procurement Number	Amount Awarded	Expenditures
		AG-0489-D-10-9005	\$85,800	\$74,742
		AG-0489-P-10-0017	\$74,055	\$63,968
		SUBTOTAL	\$11,214,699*	\$6,737,272*
Pacific Southwest	WFM-05-01HF	09-DG-11059702-106	\$4,061,422	\$2,996,991
		09-PA-11059702-012	\$691,750	\$301,333
		10-PA-11059702-064	\$675,000	\$308,541
		10-PA-11059702-090	\$523,970	\$72,956
		AG-9702-D-10-0188	\$127,293	0
		AG-9702-C-10-0237	\$101,692	\$42,817
		AG-9702-C-10-0088	\$75,538	\$75,538
		AG-9702-P-10-0080	\$10,480	\$4,060
		AG-9702-P-10-0050	\$7,140	\$6,322
		SUBTOTAL	\$6,274,285	\$3,308,559*
Forest Products Laboratory	WFM-1111-19	09-DG-11114419-050	\$250,000	\$250,000
	WFM-1111-8B	09-DG-11114419-025	\$250,000	\$244,000
		SUBTOTAL	\$500,000	\$494,000
Southwestern	WFM-NM-01B	10-DG-11039702-079	\$2,000,000	\$22,850
		SUBTOTAL	\$2,000,000	\$22,850
Intermountain	WFM-0460-01WTE	09-DG-110482B1-036	\$2,500,000	\$2,500,000
	WFM-0460-04WTE	09-DG-110482B1-037	\$4,000,000	\$4,000,000
		SUBTOTAL	\$6,500,000	\$6,500,000
		TOTAL	\$26,488,984*	\$17,062,681*

*Denotes a difference due to rounding.

Exhibit D: Sampling Methodology

Objective

The objective was to determine whether WFM projects on Federal lands met the goals and requirements of the Recovery Act. Statistical sampling⁵¹ was used to ensure objectivity of our audit results, but no projections were made.

Audit Universe

The FS awarded over \$199 million to carry out 113 national WFM projects on Federal lands as of May 24, 2010. These projects were completed using a combination of grants, cooperative agreements, and contracts. From the 113 national projects, we selected 9 for review; 4 having an award value of at least \$7 million and 5 biomass utilization grants. Three biomass utilization grants were selected based on dollar amount and two were selected randomly.

These 9 national projects were originally composed of 163 contracts, grants, and agreements. Six of these procurements were cancelled prior to our work, leaving 157 in the audit universe.

Sample Design and Modifications

Sample 1

A stratum was established for each of the nine national projects. The high dollar strata were the four projects with an estimated award amount of at least \$7 million.⁵² These 4 projects had a total of 158 contracts, grants, or agreements. The other five strata included the three judgmentally and two randomly selected biomass projects. (Each biomass project was awarded as one grant.) From these 9 strata, we selected a stratified sample of 52 contracts, grants, and agreements for review. The following table includes data for Universe 1 and Sample 1.

Table 1 - Universe 1 and Sample 1

Strata	Basis for Inclusion	Universe 1: Number of Contracts / grants / agreements		Sample 1: Number of contracts / grants / agreements
		Original	After Cancellations	
1: WFM-06XX-01HF	High dollar	60	54	13
2: WFM-05-01HF	High dollar	23	23	9
3: WFM-0600-1	High dollar	41	41	13
4: WFM-0604-03HF	High dollar	34	34	12
	High Dollar Subtotal	158	152	47
5: WFM-1111-19	Biomass	1	1	1
6: WFM-1111-8B	Biomass	1	1	1
7: WFM-NM-01B	Biomass	1	1	1

⁵¹ Also referred to as random or probability sampling.

⁵² As of August 25, 2010.

Strata	Basis for Inclusion	Universe 1: Number of Contracts / grants / agreements		Sample 1: Number of contracts / grants / agreements
		Original	After Cancellations	
8: WFM-0460-01WTE	Biomass	1	1	1
9: WFM-0460-04WTE	Biomass	1	1	1
	Biomass Subtotal	5	5	5
	Grand Total	163	157	52

Sample 2

As the audit progressed, the team performed a more in-depth review of Service Contract Act and E-Verify compliance criteria, including an assessment of underpaid wages. Executing this in-depth review of individual contracts, grants, and agreements required that resources be devoted to a smaller number of awards than had been selected for Sample 1. We adopted a reduced universe, “Universe 2,” which was limited to awards selected from the four high dollar projects in Sample 1. From those 47 awards, we excluded 6; 3 that were cancelled, 1 with no funding for personnel, and 2 with such small dollar amounts that travel costs would have exceeded the award amounts. Therefore, Universe 2 included 41 contracts, grants, and agreements from the 4 high dollar value projects. The following table includes data for Universe 2.

Table 2 - Universe 2

Project	Procurement Award Type			Total by Project
	Contract	Grant	Agreement	
Counts from Sample 1				
WFM-06XX-01HF	13	0	0	13
WFM-05-01HF	5	1	3	9
WFM-0600-1	11	0	2	13
WFM-0604-03HF	12	0	0	12
All four (Sample 1 Totals by Award Type)	41	1	5	47
Updates / Revisions Applied for Universe 2				
WFM-06XX-01HF	13	0	0	13
WFM-05-01HF	3	0	3	6
WFM-0600-1	10	0	2	12
WFM-0604-03HF	10	0	0	10
All 4 (Universe 2 Totals by Award Type)	36	0	5	41

From Universe 2, we selected a simple random sample of 16 awards to review for Service Contract Act and E-Verify compliance. These 16 awards, which included 14 contracts and 2 agreements, compose Sample 2. During the fieldwork, the team identified and reviewed three associated subcontracts. Therefore, the review and results reported are for 16 awards and 19 recipients. The following table includes data for Sample 2.

Table 3 - Sample 2

Category	Procurement Award Type			Total
	Contract	Grant	Agreement	
Universe 2 Awards	36	0	5	41
Sample 2 Awards	14	0	2	16
Subcontracts Found During Audit of Sample 2 Awards	3	0	0	3
Total Recipients Reviewed	17	0	2	19

The 19 recipients in Sample 2 were used for the in-depth audit analysis. The Service Contract Act and E-Verify criteria did not apply to all 16 awards; it only applied to contract awards. No exception was counted when a criterion did not apply.

Abbreviations

COR	Contracting Officer Representative
DHS.....	Department of Homeland Security
DOL	Department of Labor
EROC.....	Economic Recovery Operations Center
FAR.....	Federal Acquisition Regulation
FS	Forest Service
FY	Fiscal Year
OIG	Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act
SSA	Social Security Administration
U.S.C.....	United States Code
WFM.....	Wildland Fire Management

**USDA'S
FOREST SERVICE
RESPONSE TO AUDIT REPORT**



Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430

Date: September 4, 2012

Route To:

Subject: Response to OIG Draft Report No. 08703-01-AT , " Forest Service's Use of the American Recovery and Reinvestment Act Funds for Wildland Fire Management on Federal Lands," dated July 24, 2012

To: Gil Harden, Assistant Inspector General for Audit, Office of Inspector General, USDA

Thank you for the opportunity to review and comment on the OIG draft audit report titled, "Forest Service's Use of the American Recovery and Reinvestment Act Funds for Wildland Fire Management on Federal Lands," dated July 24, 2012. The Forest Service generally agrees with the report's findings and recommendations.

The enclosed response outlines our proposed actions for each of the audit recommendations. If you have any questions, please contact Thelma Strong, Acting Chief Financial Officer, at 202-205-1321 or tstrong@fs.fed.us.

/s/ Thomas L. Tidwell
THOMAS L. TIDWELL
Chief

cc: Erica Y Banegas
George A Sears
Robert Jaeger
Arthur Bryant

Enclosures



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USDA Forest Service (FS)

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Office of Inspector General (OIG) Draft Audit Report No. 08703-01-AT
Official Draft Report on FS Use of ARRA Funds for
Wildland Fire Management on Federal Lands
July 24, 2012

Management Decision

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Recommendation 1: Develop policies and procedures for contracting officials to ensure contractors enroll in the E-Verify system and to periodically ensure that contractors are properly checking their employees in E-Verify. Incorporate these policies and procedures in the applicable handbook and contracting officer/Contracting Officer Representative (COR) training modules.

FS Response: FS generally concurs with this recommendation. The Agency adheres to the Federal Acquisition Regulation (FAR) guidelines to include FAR 52.222-54, Employment Eligibility Verification. This clause is required and included in all FS solicitations and contracts that exceed the simplified acquisition threshold, except those that—

- (a) Are only for work that will be performed outside the United States;
- (b) Are for a period of performance of less than 120 days; or
- (c) Are only for—
 - (1) Commercially available off-the-shelf items;
 - (2) Items that would be COTS items, but for minor modifications (as defined at paragraph (3)(ii) of the definition of “commercial item” at 2.101);
 - (3) Items that would be COTS items if they were not bulk cargo; or
 - (4) Commercial services that are—
 - (i) Part of the purchase of a COTS item (or an item that would be a COTS item, but for minor modifications);
 - (ii) Performed by the COTS provider; and
 - (iii) Are normally provided for that COTS item.

Contracting officers are required to verify that all proposals meet the requirements of FAR 52.222-54 when determining that a contractor is responsible and eligible for an award. FS is currently revising the Forest Service Acquisition Regulation (FSAR) to ensure that the most recent and relevant changes are reflected in agency regulations. Revisions to the FS Contract Administration handbook are planned for the second quarter FY 2013.

COR delegation letters of authority outline the roles and responsibilities for each type of contract. Annual and refresher COR training outlines the basic roles and responsibilities, to include adherence to all applicable regulations, FAR, and agency supplemental clauses. One of the main responsibilities for any COR is to report any contract violations they become aware of to the contracting officer for action and resolution.

In response to this audit recommendation, the Washington Office (WO) Acquisition Management (AQM) staff will issue a letter reminding CORs of the E-Verify requirement and reference E-Verify in the revisions to the FSAR and FS Contract Administration Handbook (FSH 6309.11, 11.34) to assure the E-Verify clause is included in solicitations and contracts, as applicable.

Estimated Completion Date: June 30, 2013

Recommendation 2: Develop guidance that clearly explains a contractor’s responsibilities for E-Verify for CORs to distribute at the post-award conference.

FS Response: FS does not concur with this recommendation. The Employment Eligibility Verification clause is required and included in all FS solicitations and contracts that exceed the simplified acquisition threshold, except those that—

- (a) Are only for work that will be performed outside the United States;
- (b) Are for a period of performance of less than 120 days; or
- (c) Are only for—
 - (1) Commercially available off-the-shelf items;
 - (2) Items that would be COTS items, but for minor modifications (as defined at paragraph (3) (ii) of the definition of “commercial item” at 2.101);
 - (3) Items that would be COTS items if they were not bulk cargo; or
 - (4) Commercial services that are—
 - (i) Part of the purchase of a COTS item (or an item that would be a COTS item, but for minor modifications);
 - (ii) Performed by the COTS provider; and
 - (iii) Are normally provided for that COTS item.

In response to this audit recommendation, the WO AQM will issue a letter reminding CORs of the E-Verify requirement and that the clause should be included in solicitations and contracts, as applicable, per the FAR guidelines. The agency will also reference E-Verify in the revisions to the FSAR and FS Contract Administration Handbook (FSH 6309.11, 11.34), as applicable.

Estimated Completion Date: June 30, 2013

Recommendation 3: Follow up and determine whether corrective actions are needed for the 14 contractors that did not enroll in E-Verify, did not check all their employees, or were late in performing E-Verify checks.

FS Response: FS generally concurs with this recommendation. The Agency will review the 14 contractors that did not enroll in E-Verify, did not check all their employees, or were late in performing E-Verify checks and take the necessary corrective actions as applicable.

Estimated Completion Date: June 30, 2013

Recommendation 4: FS should develop a consistent and specific methodology involving both employee interviews and examinations of contractor records for verifying compliance with the Service Contract Act award provisions. Incorporate guidance on this method in the applicable handbook and contracting officer/COR training modules.

FS Response: FS concurs with this recommendation. COR delegation letters of authority outline the roles and responsibilities for each contract. Part of the annual and refresher training required for all COR's outlines the basic roles and responsibilities, to include adherence to all applicable regulations, FAR and agency supplemental clauses. One of the main responsibilities for any COR is to report any contract violations to the contracting officer for action and resolution.

CORs are currently delegated the responsibility to conduct inspections for invoices to ensure they are meeting all contractual requirements, to include any applicable wage determinations included in a contract. Revisions to the FS Contract Administration handbook are planned for the second quarter of FY 2013; this topic will be addressed from a policy and procedural aspect.

The WO AQM will issue a letter to CORs regarding training and operational responsibilities to minimize reoccurrence of this finding.

Estimated Completion Date: January 31, 2013

Recommendation 5: Ensure that six contractors with underpaid wages have reimbursed their employees for the denied wages.

FS Response: FS concurs with this recommendation. FS is reviewing payments to the six identified contractors and will ensure that payment has either been made or this issue has been elevated to the Department of Labor, who is the enforcement agency for wage determination violations.

Estimated Completion Date: October 31, 2012

Recommendation 6: Review the cited grantee's records and ensure its expenditures were in accordance with the approved grant budget. Obtain an accurate equipment inventory from the grantee that includes the amount of grant funds used on each piece of equipment.

FS Response: FS concurs with this recommendation. FSH 1580.41 9g2e outlines the roles and responsibilities for program managers with regards to on-going monitoring. Moreover, FSH 1509.11 Chapter 81: *Termination*, as well as 7 CFR 3016.43: *Enforcement*, provide guidance on appropriate actions to be utilized, should compliance with the provisions of the award become challenged. Within this context and according to Federal regulation, FS has the authority to review the grantee's records in light of the findings in this audit. Standard provisions detailed in 1509.11 Chapter 91 (for Federal Financial Assistance Awards) include the requirement that the recipient must "forward an equipment inventory to the U.S. Forest Service, listing all equipment purchased with U.S. Forest Service funding through the life of the project."

FS will review the cited grantees' records and ensure the recipient's expenditures were in accordance with the approved grant budget. FS will also obtain a completed equipment inventory list from the grantee that includes the amount of grant funds used on each piece of equipment.

Estimated Completion Date: June 30, 2013

Recommendation 7: Revise the award letter to include clear language to notify grant recipients of their responsibilities and award requirements.

FS Response: The FS generally concurs with this finding. As noted in the audit report, FS was in the process of modifying the award letter templates to incorporate ARRA specific guidance. The *Federal Financial Assistance Award of Domestic Grants* Template was released in December 2011 for G&A specialist's use to ensure uniformity in all ARRA awards. All grants issued by the FS now include specified terms and conditions/provisions detailing the recipient's responsibilities with regards to how program funds may be used as well as specific reference to the applicable Code of Federal Regulations and OBM circulars, dependent upon the recipient type.

The award letter is a template that states this is an award of Federal Financial Assistance and is subject to various regulations and OMB Circulars; the template allows the originator of the letter to select and use the appropriate Code of Federal Regulation and OMB Circulars that match the administrative requirements. This information is provided on the first page of the award letter, in the second paragraph, as shown in the Standard Award Letter Template for Federal Financial Assistance. Comments on the right side define areas where information can be inserted as appropriate. (See **TAB A**).

Included in the standard provisions is direction on where to obtain the OMB circulars and the CFRs referenced in the award letter. This information is provided on the first page of the award letter in the third paragraph, including a contact number that is inserted for the Grants and Agreements Office associated with the award letter. Specific reporting requirements for the SF425 and Program Performance Reports (content and submission), are also defined relevant to the recipient and can be found on page 10 of the award letter.

Estimated Completion Date: N/A

Recommendation 8: In *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook," and *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," include a requirement for program managers to conduct post-award meetings with first-time and infrequent recipients of FS awards and maintain documentation on the results of that interaction.

FS Response: FS concurs with this recommendation. FSH 1580.41g (**TAB B**) details the roles and responsibilities of program managers including pre-award, administration, monitoring and

close-out. FSH 1509.11, Chapter 10: Grants and Agreements Administration part 15.2 (**TAB C**) stipulates post-award meetings, if desired, should be held within 30 days of award of a new grant, cooperative agreement, or any other agreement type. The purpose of the meeting should be to discuss pertinent administrative requirements such as significant provisions, award requirements, and operating procedures specifically identified in the documents. The Post-Award Meeting is described as an opportunity to define each party's role and responsibilities and to answer any last minute recipient/cooperator questions prior to commencement of work. In addition, Section 15.6 describes methodology for project monitoring as an integral part of post-award administration, and identifies various tools such as performance reports, on-site reviews, telephone calls/desk reviews and financial reviews. Performance reporting alone is a tool that provides written and recorded information that illustrates that recipient/cooperators of Federal funds are meeting their requirements in the agreement as key activities in monitoring projects.

Estimated Completion Date: N/A

Recommendation 9: Revise *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook" and *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," to include specific requirements for ongoing and periodic reviews of a grantee's financial reports, accounting records, and records of equipment purchased with grant funds.

FS Response: FS concurs with this finding, in part. FSH 1580 and FSH 1509.11, Chapter 10 (15.65) address details of financial reviews. Section 15.6 describes methodology for project monitoring including performance reports, on-site reviews, telephone calls/desk reviews and financial reviews. In addition, should cause be warranted, under OMB, Circulars, and the FS handbook guidance, procedures are in place for enforcement (7 CFR 3019.43) and cooperator performance and termination (FSH 1509 Chapter 81). FSH 1509.11 Chapter 80 (81.2) and 7 CFR 3016.43 details Recipient/Cooperator performance. Given the absence of guidance for equipment purchase and retention, a revision is currently underway on FSH 1509.11 Chapter 90: Standard and Discretionary Provisions and Assurances.

Estimated Completion Date: June 30, 2013

Recommendation 10: In *FS Handbook* 1509.11, "Grants, Cooperative Agreements, and Other Agreements Handbook," or *FS Manual* 1500, Chapter 1580, "Grants, Cooperative Agreements and Other Agreements," include guidelines for program managers that clearly define equipment, the types of equipment tracked for grant purposes, and how equipment constructed by grantees should be tracked.

FS Response: FS concurs with this recommendation. A workgroup has convened to revise the equipment guidelines contained in FSH 1509.11 Chapter 90: Standard and Discretionary Provisions and Assurances. Clarification on topics such as, but not limited to, property and equipment purchases, procurement, title, and record retention are underway. This revised chapter on equipment will provide guidelines for program managers that clearly define

equipment, types of equipment tracked for grant purposes, and how equipment constructed by grantees should be tracked.

Estimated Completion Date: June 30, 2013

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