



U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: July 23, 2010

REPLY TO
ATTN OF: 08703-0001-SF (1)

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Donna M. Carmical
Chief Financial Officer
Forest Service

FROM: /s/ <Gil H. Harden> (for): Tracy LaPoint
Assistant Inspector General
for Audit

SUBJECT: Recovery Act – Forest Service (FS) Wood-to-Energy Projects—Inadequate
Support for Equipment Purchases

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included \$1.15 billion in funds for the Forest Service (FS) to implement projects that directly accomplish its mission of sustaining the nation's forests and grasslands, creating jobs, and promoting U.S. economic recovery. In passing the law, Congress emphasized accountability for and transparency of funds spent through the act. To accomplish this, the Office of Management and Budget (OMB) issued guidance in February 2009 that requires Federal agencies to establish internal controls, oversight mechanisms, and other approaches to meet the Recovery Act's accountability objectives. The director of FS' Acquisition Management is responsible for implementing processes to ensure the agency complies with the Recovery Act and OMB's related guidance. In general, the Recovery Act requires the Department of Agriculture's (USDA) Office of Inspector General (OIG) to oversee FS' (and other agencies') activities in order to ensure Recovery Act funds are spent in a manner that minimizes the risk of improper use.

The Recovery Act authorized \$500 million for Wildland Fire Management, of which up to \$50 million of the total funding was made available for wood-to-energy grants. These grants promote increased utilization of biomass¹ from Federal, State, and private lands. As of June 2009, \$49 million in Recovery Act funds were used to fund 23 wood-to-energy grants. FS' Forest Products Laboratory (FPL), located in Madison, Wisconsin, is the nation's leading Federal wood utilization research laboratory, and is responsible for the administration of seven of these projects. In October 2009, as part of USDA OIG's continuing oversight of Recovery Act

¹ Biomass is the by-product of restoring and reducing hazardous fuels, including trees and woody plants.

activities, we initiated a review of Grant Recipient C, which produces wood pellets for heating fuel. This grant recipient was judgmentally selected for review because it had expended 92 percent of its \$250,000 grant. In its Application for Federal Assistance, the recipient noted that \$231,000 of the award amount was for the purchase of equipment, supplies, and other items.

The objective of our review was to determine whether FPL ensured that Grant Recipient C complied with applicable laws and regulations pertaining to the Recovery Act. This report is one in a series of reports related to wood-to-energy grants. Issues identified during the course of these reviews will be summarized in a final report at the conclusion of the audit.

In August 2009, the grant recipient submitted an advance payment request for \$231,000 for equipment, supplies, and other items associated with the expansion of its pellet mill.² FPL approved the request on August 31, 2009, without requiring the grant recipient to submit documentation showing that a minimum of two quotes were obtained for equipment purchased with grant funds. On September 9, 2009, FPL disbursed the requested funds to the grant recipient.

In November 2009, the grant recipient submitted a Self-Certified Advance Liquidation Form (liquidation form)³ to Albuquerque Service Center (ASC), which indicated all advanced funds (\$231,000) were expended in accordance with the terms of the grant agreement. According to the grant agreement,⁴ the recipient must clearly demonstrate to FPL that all advanced funds were fully and properly expended prior to FPL approving additional funding requests. However, FPL approved the liquidation form without supporting documentation that clearly demonstrated that all advanced funds were properly expended. As a result, FPL did not identify that the recipient purchased equipment at a markup from its corporate officers, and that the equipment was registered to someone other than the grant recipient. We questioned nine transactions (\$177,243 of the \$231,000) that were not supported with the required documentation (see attached). We did not have any concerns with the use of the remaining funds (\$53,757).

In September 2009, the grant recipient paid \$77,121 for six pieces of equipment, which included three vehicles. However, the recipient did not provide supporting documentation to justify the expenditure. The items were purchased from an auction house approximately three months earlier by the recipient's corporate officers and their acquaintances for \$72,951 and sold to the grant recipient at a mark-up of more than 5 percent. Because of the absence of documentation, FPL was not aware that the equipment was purchased from corporate officers and their acquaintances. Accordingly, FPL did not have reasonable assurance that the procurement of equipment was in accordance with OMB regulations,⁵ requiring processes be established to identify and address risks arising from conflict of interest.

- Two of the three vehicles purchased by the grantee in September 2009 were registered to someone other than the grant recipient. Registration was transferred to the grant recipient

² Pellet mill is a type of mill used to create cylindrical pellets from a mixture of dry powdered feedstocks, such as flour, sawdust, or grass, and a wet ingredient, such as molasses or steam. The pellets are made by compacting the mash or meal into many small holes in a die. Pellet mills are used in the production of animal feeds, as well as wood and grass fuel pellets for use in pellet stoves.

³ A Self-Certified Advance Liquidation Form is signed by the grantee and submitted to ASC to support the advanced of funds.

⁴ Grant Agreement No. 09-D-11114419-046 section M, dated August 20, 2009.

⁵ OMB A-133 Compliance Supplement 6-I-1, dated March 2009.

in January 2010, after OIG informed the recipient of the discrepancy in ownership. Vehicles acquired with federal funds should be timely and properly registered to establish ownership and accountability.⁶

- In September 2009, the grant recipient paid \$100,122 for three additional pieces of equipment. The recipient provided the corresponding receipts, but did not provide the required two quotes for the purchases. The recipient stated that it was unclear in the grant agreement that this had to be done.
- In November 2009, the grant recipient submitted a liquidation form to ASC and FPL without supporting documentation. We believe FS needed to obtain documentation to clearly demonstrate that the costs were allowable and related to the subject grant agreement. According to the grant agreement,⁷ the recipient needs to provide documentation to FPL that clearly demonstrates that advanced funds are fully expended and allowable before additional payment requests are authorized.

FPL officials stated that under the terms of the existing grant agreement, the recipient is required to obtain two quotes for equipment purchases and to provide copies of the original sales receipts to FPL before FPL can approve a payment request, unless the request is for an advanced payment. FPL believed that a Self-Certified Advanced Liquidation Form from the grantee was sufficient evidence to show that advanced funds were fully expended. However, a Self-Certified Advanced Liquidation Form does not contain a detailed breakdown of all expenditures. It only indicates that the total amount of advanced funds was expended. We believe the form alone does not provide reasonable assurance that the funds were used for allowable purposes under the grant agreement. We believe that, along with the Self-Certified Advanced Liquidation Form, the recipient should submit supporting documentation for all expenditures so FPL can ensure that all costs are allowable and related to the subject grant agreement. We discussed the concerns with representatives from FPL and they generally agreed.

We recommend that FPL ensure that the purchase of the six pieces of equipment for \$77,121 and the three additional purchases of \$100,122 are adequately supported and allowable under the grant agreement. If the purchases are not adequately supported or are not allowed under the grant agreement, appropriate action should be taken. FPL should also require the grant recipient to provide supporting documentation with the Self-Certified Advanced Liquidation Forms to ensure that advanced funds are fully expended prior to the authorization of subsequent payments. In addition, the FPL should amend the Grant Recipient C agreement to clarify that when requests for payment advances are made, it must provide at least two quotes for equipment purchases and copies of original sales receipts.

Please provide a written response within 5 days that outlines your corrective action on this matter. If you have any questions, please contact me at (202) 720-6945, or have a member of our staff contact Steve Rickrode, Director, Rural Development and Natural Resources Division, at (202) 690-4483.

⁶ FS Handbook 1509.11, Chapter 10-15.4.

⁷ Grant Agreement No. 09-D-11114419-046 Section M, dated August 20, 2009.

Exhibit A: Grantee's Equipment Purchases

Grant Recipient C ARRA Grant 09-DG-1114419-046							
Equipment			Prices			Information Provided to FPL	
Type	Original Source	Purchases	Original		Markup	Original Receipts	Required Quotes
Pneumatic Bulk Trailer	Purchased by Corp. Officer from auction on June 4, 2009	Purchased from Corp. Officer on Sep 10, 2009	\$11,319	\$11,885	\$566	No	No
Excavator	Purchased by Corp. Officers from auction on June 4, 2009	Purchased from Corp. Officers on Sep 10, 2009	\$36,715	\$38,550	\$1,835	No	No
GMC Truck	Purchased by Corp. Officer from a third party on May 15, 2009	Purchased from Corp. Officer on Sep 10, 2009	\$7,000	\$7,600	\$600	No	No
Pneumatic Forklift	Purchased by an acquaintance of corporate officers from auction on June 4, 2009	Purchased from an acquaintance of corporate officers on Sep 10, 2009	\$8,917	\$9,362	\$446	No	No
Truck	Purchased by an acquaintance of corporate officers from auction on June 4, 2009	Purchased from an acquaintance of corporate officers on Sep 10, 2009	\$4,500	\$4,862	\$362	No	No
Truck	Purchased by an acquaintance of corporate officers from auction on June 4, 2009	Purchased from an acquaintance of corporate officers on Sep 10, 2009	\$4,500	\$4,862	\$362	No	No
	Total amount of related party transactions		\$72,951	\$77,121	\$4,171		
Sensors		Purchased from Process Sensors Co. on Aug 19, 2009		\$32,075		Yes	No
Conveyor		Purchased from Aggregate & Mining on Aug 14, 2009		\$32,700		Yes	No
Screener		Purchased from Olson Limited Equipment Sales on Jun 1, 2009		\$35,347		Yes	No
		Total amount of equipment paid with original receipts but no required quotes		\$100,122			
		Grand total amount of questionable transactions		\$177,243			

The exhibit identifies the grantee's related party transactions, the total amount of equipment purchased, and whether original receipts and the required quotes were provided to the FPL.

USDA'S

FOREST SERVICE

RESPONSE TO AUDIT REPORT



File Code: 1430-1

Date: August 5, 2010

Subject: Response to OIG Audit Report No. 08703-0001-SF (1), "Recovery Act - Forest Service (FS) Wood-to-Energy Projects – Inadequate Support for Equipment Purchases."

To: Gil H. Harden, Assistant Inspector General for Audit

This letter is in response to Audit Report No. 08703-0001-SF (1), "Recovery Act - Forest Service (FS) Wood-to-Energy Projects – Inadequate Support for Equipment Purchases" received on July 23, 2010, from the Office of the Inspector General (OIG). The FS generally concurs with the three recommendations stated in this report and has implemented corrective actions. The response for each recommendation follows:

OIG Recommendation #1: Ensure that the purchase of the six pieces of equipment for \$77,121 and the three additional purchases of \$100,122 are adequately supported and allowable under the grant agreement.

Forest Service Response: FS concurs with the recommendation. The Forest Products Lab (FPL) has obtained the quotes for the equipment purchases to ensure that all equipment expenses are adequately supported and allowable, supporting documentation is attached in Exhibit A. In an effort to demonstrate the price of the equipment was a reasonable competitive market price, FPL has requested additional quotes to Grant Recipient C with a due date of September 15, 2010.

OIG Recommendation #2: FPL should require the grant recipient to provide supporting documentation with the Self-Certified Advanced Liquidation Forms to ensure that advanced funds are fully expended prior to the authorization of subsequent payments.

Forest Service Response: FS concurs with the recommendation. FS does require supporting documentation of equipment expenditures prior to approving the Advance Liquidation transaction and has obtained copies of the original receipts for the equipment purchased under the advance, supporting documentation is attached in Exhibit B. Exhibit C further illustrates a complete breakdown of the advance approved for Recipient C. We will continue to require and insure that invoices of equipment are adequately supported by the expenditures incurred. This grant specifically required the submission of receipts for equipment purchases over \$25,000. When the grantee submitted the request for an advance dated September 2009, the required quotes were attached and were part of the program managers file, prior to approval. The required receipts were received prior to approving the advance liquidation in November 2009.

OIG Recommendation #3: FPL should amend the Grant Recipient C agreement to clarify that when requests for payment advances are made, it must provide at least two quotes for equipment purchases and copies of original sales receipts.



Forest Service Response: FS generally concurs with the recommendation. The subject grant is nearly completed and has been able to process over 4,000 green tons of beetle-killed material from National Forest System lands, thereby helping to reduce the threat from wildfires and falling hazard trees due to this large epidemic. The project is in its final stage and the grant will soon be closed. In consideration of the completion of the project, we have sent a letter to Grant Recipient C clarifying the wording in the grant award, in lieu of an amendment at this time.

If you have any additional questions, please contact Donna Carmical, Chief Financial Officer, (202) 205-1321, dcarmical@fs.fed.us.

/s/ Donna M. Carmical
DONNA M. CARMICAL
Chief Financial Officer

Enclosures