



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: March 18, 2011

REPLY TO
ATTN OF: 08703-0001-SF (4)

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Donna M. Carmical
Chief Financial Officer

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Grant Recipient Submits Inaccurate Payment Request – The Recovery Act –
Forest Service Wood-to-Energy Projects (4)

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 Recovery 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 to oversee FS' (and other agencies') activities 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 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 was obligated for 23 wood-to-energy grants. In March 2010, as part of our continuing oversight of Recovery Act activities, we initiated a review of a grant, which funded the site preparation and construction of a boiler heating facility.

The grant is administered by the FS Intermountain Region and was randomly selected for review from a statistical sample. As of May 2010, Grant Recipient E had received \$1.3 million of the

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

\$2.7 million grant award. The objective of our review was to determine whether Grant Recipient E complied with applicable laws and regulations pertaining to the Recovery Act. We found that Grant Recipient E submitted an inaccurate request for reimbursement. As a result, FS provided an excess reimbursement of \$250,000 to Grant Recipient E. This report is one in a series of reports pertaining to wood-to-energy grants. The issue discussed below, along with any others identified, will be compiled into a final report at the conclusion of our audit.

Grant Recipient E overstated its request for reimbursement for site preparation and construction of a boiler heating facility. We noted that Grant Recipient E requested a reimbursement of \$783,013; however, it spent only \$533,013. According to Grant Recipient E, they requested “additional” funds to establish a contingency fund. The FS grant agreement² and Code of Federal Regulations³ require that requests for payments be based on actual cash disbursements for goods and/or services. Given that the contingency fund had nothing to do with goods or services, Grant Recipient E requested and subsequently received an excess reimbursement of \$250,000.

On February 24, 2010, Grant Recipient E received funds to pay a \$5,059 invoice, dated August 19, 2009, and a \$527,954 invoice, dated December 31, 2009. We noted that as of April 2010, \$250,000 of the \$783,013 total reimbursement was held in a general business interest-bearing account.

According to a FS Washington official, the requirements to verify expenditures before processing payment requests are cited in OMB circulars and are incorporated into every FS grant agreement by reference. Our review of the relevant OMB circulars⁴ noted that grant recipients are not required to submit documentation to support their payment requests. However, the FS Program Manager, who is responsible for reviews of payment requests, has the authority⁵ to request supporting documentation from a grant recipient to support any expenditure; although we noted that such requests were not common practice.

In the case of Grant Recipient E, FS accepted the grant recipient’s payment request without supporting documentation, and therefore was unaware that the reimbursement exceeded actual costs. The FS Program Manager stated that FS will closely monitor future requests and will require Grant Recipient E to submit documentation to support future disbursements. FS also agreed to collect any interest accrued on Recovery Act funds from Grant Recipient E.

We recommend that FS (1) obtain the required documentation from Grant Recipient E to verify that future expenditures match the payment requests; (2) verify that the \$250,000 was used for grant purposes; (3) recover any excess reimbursements; and, (4) calculate and recover the interest received on excess reimbursements.

² Grant Agreement number 09-DG-110482B1-038 Section K, dated August 31, 2009.

³ 7 CFR 3016.21 (d) dated March 1988.

⁴ OMB Circular A-102 Grants and Cooperative Agreements With State and Local Governments (10/07/1994); OMB Circular A-110 Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (11/19/1993).

⁵ FSH 1509.11 Chapter 90 Section D.4.a-g, dated October 20, 2009.

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 your staff contact Steve Rickrode, Director, Rural Development and Natural Resources Division, at (202) 690-4483.

cc:

Jennifer McGuire, Director of Audit and Assurance, Forest Service

Linda Smith, Supervisory Accountant, Forest Service

Dianna Capshaw, Supervisory Accountant, Forest Service

Erica Banegas, Branch Chief, Forest Service

Sandy Coleman, Branch Chief, Forest Service

Janet Roder, OIG Audit Liaison, Forest Service

USDA'S

FOREST SERVICE'S

RESPONSE TO AUDIT REPORT



File Code: 1430

Date: March 31, 2011

Subject: Response to Audit Report No. 08703-0001-SF (4), Grant Recipient Submits Inaccurate Payment Requests – The Recovery Act – Forest Service Wood-To-Energy Projects (4)

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

This letter is in response to the Audit Report No. 08703-0001-SF (4), "Grant Recipient Submits Inaccurate Payment Requests – The Recovery Act – Forest Service Wood-To-Energy Projects (4)", received on March 22, 2011, from the US Department of Agriculture Office of the Inspector General. The response for each cited in subject report follows:

OIG Recommendation #1: Obtain the required documentation from Grant Recipient E to verify that future expenditures match the payment request.

Forest Service Response: The FS agrees with this recommendation. Shortly after finding this problem, the FS Program Manager requested and received backup information from Recipient in order to verify that the excess reimbursement and future payment requests were legitimate. This information was gathered for several months and covered multiple payment requests. Payments were not approved until verification was made.

In addition, the Forest Service will provide additional guidance by May 31, 2011 to Program Managers and Grants Management Specialists specifying procedures to follow to ensure appropriate review and approval of recipient's requests for payments.

OIG Recommendation #2: Verify that the \$250,000 was used for grant purposes.

Forest Service Response: The FS agrees with this recommendation. This was completed using the back-up information obtained from the Recipient. The enclosed document outlines the timeframe and the steps taken to verify that the funds were used for grant purposes

OIG Recommendation #3: Recover any excess reimbursements.

Forest Service Response: As noted in recommendation #2, the FS determined expenditures incurred against the \$250,000 were allowable in accordance with grant purposes. There are no excess funds or inaccurate reimbursements to collect or recover.

OIG Recommendation #4: Calculate and recover the interest received on excess reimbursements.



Forest Service Response: Subsequent to a joint review conducted by the FS with the Recipient, in which the FS identified and explained to the Recipient the issue related to interest, the grant funding was removed and segregated from the Recipient's interest bearing account. Further, and in response to the FS request, the Recipient calculated the interest earned at \$28.24.

In accordance with 7 CFR 3016.21, interest earned by the Recipient up to \$100 per year is allowable and may be absorbed and expended by the Recipient for administrative expenses. The FS, therefore, determined the interest earned in the amount of \$28.24 is within the allowable threshold and not considered excessive.

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

Enclosure