



United States Department of Agriculture  
Office of Inspector General





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Office of Inspector General  
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DATE: July 3, 2012

AUDIT  
NUMBER: 08703-0004-SF

TO: Thomas L. Tidwell  
Chief  
Forest Service

ATTN: Thelma Strong  
Acting Chief Financial Officer

FROM: Gil H. Harden  
Assistant Inspector General  
for Audit

SUBJECT: American Recovery and Reinvestment Act – Forest Service Capital Improvement  
and Maintenance Projects – Trail Maintenance and Decommissioning

This report presents the results of the subject review. Your written response to the official draft report, excluding the attachments, is included at the end of the report. Excerpts from the response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on the information in your written response, we have accepted your management decision on Recommendations 1, 2, 4, 5, 6, 7, 8, and 9. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

Based on your written response, management decision has not been reached on Recommendation 3. The information needed to reach management decision on this recommendation is set forth in the OIG Position section after the recommendation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframe for implementing the recommendation for which management decision has 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.

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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# **American Recovery and Reinvestment Act – Forest Service Capital Improvement and Maintenance Projects Trail Maintenance and Decommissioning**

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## **Executive Summary**

To create jobs and promote economic growth, Congress passed the American Recovery and Reinvestment Act (Recovery Act) on February 17, 2009.<sup>1</sup> The Recovery Act provided Forest Service (FS) \$1.15 billion—including \$650 million for its Capital Improvement and Maintenance (CIM) fund, and \$500 million for its Wildland Fire Management (WFM) fund—to fund projects that directly accomplish FS’ mission of sustaining the nation’s forests and grasslands. FS allocated \$99 million in Recovery Act funds to 90 trail maintenance and decommissioning projects (trail projects). To administer these projects, FS awarded the funds primarily through contracts and partnership agreements.<sup>2</sup> For partnership agreements, FS tended to choose local cooperators (public, private, and non-profit organizations), many of which had an existing partnership with FS.

Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Furthermore, the Office of Management and Budget (OMB) issued initial and additional guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.<sup>3</sup> The Recovery Act mandated that the U.S. Department of Agriculture’s Office of Inspector General (OIG) oversee agency activities to ensure Recovery Act funds were spent in a manner that minimized the risk of improper use. We, therefore, conducted an audit to evaluate FS’ administration of the Trail Maintenance and Decommissioning program funds.

We reviewed 24 of the 90 trail projects to determine if FS complied with laws and regulations, selected projects that met eligibility and program requirements, completed the projects in a timely and effective manner, and supported the accomplishments it reported.

For the 24 trail projects, we did not identify any reportable issues related to selection and completion of the projects. We also did not perform a comprehensive review of FS’ reported accomplishments because we will address FS’ Recovery Act performance measures in a subsequent FS Recovery Act audit.

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<sup>1</sup> Public Law 111-5 (February 17, 2009).

<sup>2</sup> A voluntary, mutually beneficial arrangement between FS and an organization (public or private) for the purpose of accomplishing mutually agreed upon objective(s).

<sup>3</sup> OMB Memorandum M-09-10 (February 18, 2009); and OMB Memorandum M-09-15 (April 3, 2009).

However, we determined that FS needs to take corrective action to address issues related to compliance with laws and regulations, as we previously reported to agency officials.<sup>4</sup> We found that:

- FS awarded a \$9 million youth employment grant with funds from three FS programs without specifying to the grantee the conditions associated with the use of each program's funds.<sup>5</sup> FS personnel stated they overlooked the three different funding sources under the grant because it was quickly awarded.<sup>6</sup> As a result, by December 2009, the grantee had charged FS for various projects unrelated to the three FS programs—we found that 8 of 12 subgrants totaling \$317,741 included activities unrelated to the FS programs.<sup>7</sup> FS also arbitrarily allocated over \$1.65 million of grant expenditures to the three programs because the grantee was not required to track the expenditures to the three FS programs separately.
- FS program managers at two national forests did not adequately review payment requests from cooperators to ensure that project expenses claimed were for actual and allowable costs.<sup>8</sup> Rather than taking steps to perform additional oversight of the Recovery Act funds, they simply relied on the cooperators to submit accurate claims. As a result, FS overpaid \$64,096 in labor costs to one cooperator, and reimbursed another cooperator \$24,697 in questionable costs.

## Recommendation Summary

To ensure Recovery Act funds are used for their intended purpose and are properly tracked, we recommend that FS provide its grantee with specific direction on the use and tracking of program funds. FS also needs to recover all unallowable costs, and work with the grantee to allocate actual grant expenditures to the three FS programs. We further recommend that FS require its program managers to review supporting documentation to ensure payments to its cooperators are for actual and allowable costs.

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<sup>4</sup> OIG reported these issues to FS through three Fast Reports: 08703-4-SF(1) “The Recovery Act – FS Trail Maintenance and Decommissioning” (July 7, 2010); 08703-4-SF(2) “Gila National Forest, New Mexico- Questionable Costs-Recovery Act-FS Trail Maintenance and Decommissioning” (December 30, 2010); and 08703-4-SF(3) “Los Padres National Forest, Cost Overpaid to California Conservation Corps – Recovery Act-FS Trail Maintenance and Decommissioning Fast Report” (August 12, 2011).

<sup>5</sup> The grant was funded as follows: about \$5.9 million from the Trail program, \$2.6 million from the Hazardous Fuels Reduction on Federal Land program, and \$650,000 from the Hazardous Fuels Reduction on non-Federal Land program.

<sup>6</sup> The project was one of the first 10 percent of projects selected for funding. These projects were selected because they could be started quickly and were expected to be awarded as soon as possible.

<sup>7</sup> At the time of our review in December 2009, the grantee had awarded 58 subgrants totaling about \$2.3 million to 34 Oregon counties.

<sup>8</sup> A cooperator is an individual or entity that voluntarily cooperates with FS on a project and is willing to formalize the relationship by entering into a Memorandum of Understanding or agreement.

## **Agency Response**

In its response dated April 2, 2012, FS generally concurred with the reported findings and recommendations. FS' response, excluding the attachments, is included at the end of this report.

## **OIG Position**

We accept FS' management decision on Recommendations 1, 2, 4, 5, 6, 7, 8, and 9. The actions needed to reach management decision on Recommendation 3 are provided in the OIG Position section after the recommendation.



## Background and Objectives

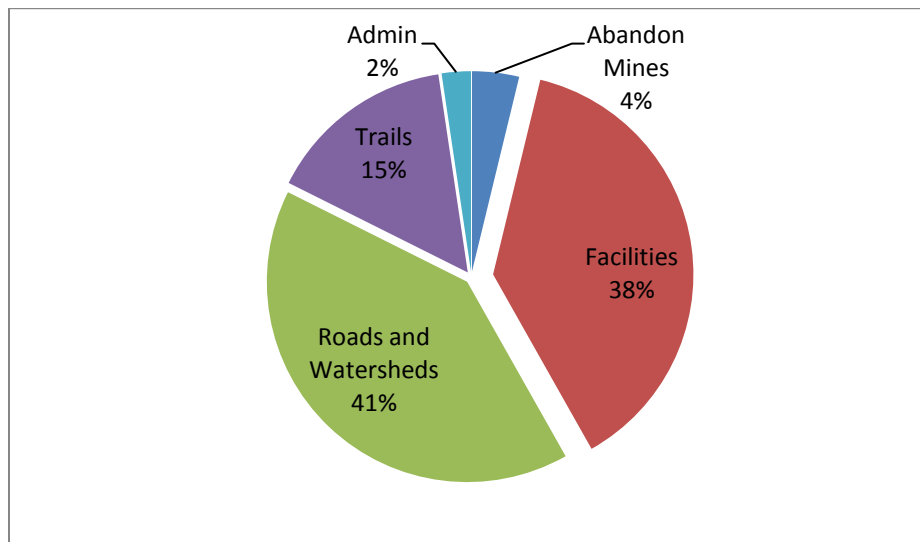
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### Background

Congress passed the American Recovery and Reinvestment Act (Recovery Act) to create jobs and promote economic growth.<sup>9</sup> Through the Recovery Act, Congress provided Forest Service (FS) with \$1.15 billion to fund projects in two major categories: \$650 million for Capital Improvement and Maintenance (CIM) and \$500 million for Wildland Fire Management (WFM). In response to the Recovery Act's emphasis on using funds as quickly as possible consistent with prudent management, FS approved the first 10 percent of its Recovery Act funds (about \$100 million) in March 2009 for projects that could be quickly started.

FS allocated \$99 million of the CIM funds to 90 trail maintenance and decommissioning projects.<sup>10</sup> Of the remaining \$551 million, \$264 million was used for road, bridge, and related watershed restoration, \$247 million for facility maintenance, \$25 million for the remediation of abandoned mines, and \$15 million for administrative expenses. Chart 1 shows the percentage of funds allocated to each project type within the CIM category.

**Chart 1: Funding by CIM Project Type**



FS primarily disbursed trail funds through contracts and partnership agreements (including participating agreements<sup>11</sup> and cost-share agreements<sup>12</sup>), with the exception of one grant. For

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<sup>9</sup> Public Law 111-5 (February 17, 2009).

<sup>10</sup> As of September 30, 2010.

<sup>11</sup> FS partners with State and non-profit conservation corps to maintain and enhance national forest trails, as well as to teach young people job skills and conservation principles.

<sup>12</sup> FS cooperates with public and private entities or individuals in developing, planning, and implementing mutually beneficial projects that enhance FS activities.

partnership agreements, FS tended to choose local cooperators (public, private, and non-profit organizations), many of which had an existing partnership with FS.

To facilitate fund distribution and provide additional oversight for the Recovery Act projects, FS established four Economic Recovery Operations Centers in April 2009. FS staffed these centers with FS contracting officers and grant and agreement (G&A) specialists. The contracting officers and G&A specialists were responsible for executing and administering the contracts, grants, and agreements for the approved Recovery Act projects. Specifically, the G&A specialists reviewed the grant and agreement applications, determined the proper award type and provisions, and ensured the appropriate authority was cited for the project.

The Recovery Act requires the U.S. Department of Agriculture's (USDA) Office of Inspector General to oversee FS' (and other USDA agencies') activities in order to ensure Recovery Act funds are spent in a manner that minimizes the risk of improper use. Consequently, OIG initiated several audits related to FS' oversight and controls over different programs including the Trail Maintenance and Decommissioning program.

## **Objectives**

Our audit was to determine whether FS (1) complied with laws and regulations pertaining to the Recovery Act funding; (2) selected Recovery Act trail projects that met eligibility and program requirements; (3) timely and effectively completed its Recovery Act trail projects, and (4) can support the accomplishments it reported. For the fourth objective, we did not complete a comprehensive review of FS' reported accomplishments because Recovery Act performance measures will be further addressed in a subsequent FS Recovery Act audit.

## **Finding 1: FS Did Not Structure a Grant Correctly**

FS awarded a \$9 million youth employment grant with funds from three FS programs without specifying to the grantee the conditions associated with the use of each program's funds. Because the project was among the first 10 percent of approved Recovery Act projects that needed to be awarded quickly, FS personnel responsible for the grant award overlooked the three different funding sources under the grant.<sup>13</sup> As a result, the grantee charged FS for various activities unrelated to the three FS programs – 8 of 12 subgrants totaling \$317,741 included activities unrelated to the FS programs. Further, because the grantee was not required to track the expenditures to the three FS programs separately, FS allocated nearly \$1.65 million of grant expenditures to the three programs arbitrarily.

OMB guidance for grant and agreement awards requires agencies to “include terms and conditions in award documents necessary for effective implementation of Recovery Act data collection and accountability requirements.”<sup>14</sup> It also states that timely and accurate reporting by Federal agencies provides both Congress and taxpayers an ability to track and monitor all Recovery Act funds with the level of transparency and accountability envisioned in the Act.<sup>15</sup>

To put young adults to work across the State of Oregon, Mt. Hood National Forest awarded a \$9 million grant to the Department of Community College and Workforce Development (the “grantee”) under the Oregon Youth Employment Initiative project. The project was approved under the first 10 percent of projects selected for funding. FS funded the grant from three different FS programs:

- \$5.9 million from the Trail Maintenance and Decommissioning program, a Capital Improvement and Maintenance (CIM) program;
- \$2.6 million from the Hazardous Fuels Reduction on Federal Land program, a Wildland Fire Management (WFM) program; and
- \$650,000 from the Hazardous Fuels Reduction on non-Federal Land program, a WFM program.

At the time of our review in December 2009, FS had reimbursed the grantee over \$1.65 million for youth employment projects in 32 Oregon counties.

FS did not structure the grant according to the above funding allocation and associated program requirements. Instead, the grant stated that the funds were for youth employment projects that fell into the category of natural resources conservation and restoration. The grantee thus allowed its subgrantees to perform a wide range of activities, many of which were not in the scope of the three FS programs. Furthermore, the grantee treated the grant as a single program fund from FS,

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<sup>13</sup> The grant was awarded under the Oregon Youth Employment Initiative project.

<sup>14</sup> OMB Memorandum M-09-10 Section 1 p.6 (February 18, 2009).

<sup>15</sup> OMB Memorandum M-09-15 Section 1 p.7 (April 3, 2009).

so the grantee did not track the grant spending for each FS program separately; consequently, FS arbitrarily allocated the grant expenditures to three different programs.

### Grant Funds Were Used for Unrelated Activities

FS did not correctly structure the grant to ensure funds were used for intended purposes. Recovery Act Trail Maintenance and Decommissioning program funds were to be invested in “public safety and backcountry access through the operation, maintenance, rehabilitation, and improvement of the National Forest System (NFS) trails system.” Recovery Act Hazardous Fuels Reduction funds were to restore fire-adapted ecosystems and to reduce the volume of hazardous fuels on forests, woodlands, shrublands, and grasslands.<sup>16</sup> However, our review found that many projects performed by the subgrantees included activities such as local community services, facility renovations, and trail maintenance on non-NFS land. These activities were not within the scope of the three FS programs.

Specifically, we judgmentally selected and reviewed 12 of the 58 subgrants that FS reimbursed the grantee from April to December 2009 for about \$560,000. The accomplishment reports for 8 of 12 subgrants (totaling \$317,741) contained activities unrelated to the three FS programs’ missions.<sup>17</sup> The unrelated activities performed by the subgrantees included (see exhibit B for more details):

- Community services activities, such as landscaping for homeless drop-in centers and public schools; grounds-keeping for a senior assisted living center; and packing and moving classroom supplies from one elementary school to another.
- Facility renovations such as painting historical buildings for a county fairground, painting a new office building for the community, and repairing buildings at several county fairgrounds.
- Non-NFS trail projects, such as maintaining and improving trails at city, county, and State parks.
- Purchase of several Apple iPhones ®.

The grantee director stated that he was unaware that the grant was funded by three different FS programs. He believed the grant used a single fund for the purpose of promoting conservation education while focusing on youth employment.

We discussed the above activities with FS Pacific Northwest region officials. Although they agreed to provide the grantee with specific program direction regarding CIM trail and WFM hazardous fuels reduction programs, they disagreed that recovery of the reimbursements

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<sup>16</sup> FY 2009 American Recovery and Reinvestment Act (FS guidance), Chapter 2 (March 18, 2009) p. 2-1, 2-2, 2-10, and 2-11.

<sup>17</sup> In our examples, we were unable to determine the specific dollar amount charged to each activity because the grantee did not disburse and track the grant funds according to each program, and subgrantees combined their expenditures for activities into a lump sum.

unrelated to the three FS programs was necessary or appropriate. They claimed a majority of the above unrelated activities enhanced the ecosystem and benefited the watersheds. Specifically, they stated that those activities “improve water quality, quantity, and stream flows in a priority river basin associated with NFS lands on which trail maintenance projects are taking place.” They cited FS Recovery Act guidance for other programs (the WFM Ecosystem Improvement Non-Federal Lands program, and the CIM Related Watershed Restoration/Ecosystem Enhancements program) to justify the unrelated activities.

We disagree with regional officials on this point; FS did not fund the grant under these other programs as noted by the specific program codes assigned for the Oregon Youth Employment Initiative project prior to the award process. FS funded each program for a specific purpose. The use of trail funds for unrelated work did not help the region to address its \$46 million backlog of deferred trails maintenance.<sup>18</sup> Similarly, the use of hazardous fuels reduction funds for unrelated activities also did not meet the program purpose of reducing the effects of large destructive fires.

### FS Arbitrarily Allocated Grant Expenditures to Three Programs

FS did not correctly charge the grant expenditures to each of the three FS programs. This occurred because the FS program manager considered the grant to be a single fund to create youth employment. As a result, we found FS arbitrarily allocated over \$1.65 million in grant expenditures to the three FS programs.

The FS Recovery Act guidance requires Recovery Act funds to be allocated and tracked accordingly to each program.<sup>19</sup>

Based on the allocation of funds from the three programs, 65 percent of the grant’s funds (nearly \$6 million) were from Trail Maintenance and Decommissioning, 28 percent of the grant funds (\$2.6 million) were from Hazardous Fuels Reduction on Federal Land, and 7 percent of the grant funds (\$650,000) were from Hazardous Fuels Reduction on non-Federal Land. However, since FS did not inform the grantee of the funding structure and associated program requirements, the grantee did not disburse the funds to the subgrantees according to each program and subgrantees combined their expenditures for activities into a lump sum.

Consequently, the FS program manager assumed that he could record the grant expenditures against any of the three program obligations in the financial system. We observed that by December 2009, FS had arbitrarily allocated over \$1.65 million in grant expenditures to the three FS programs.

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<sup>18</sup> As of November 25, 2009, the FS Pacific Northwest region’s deferred trail maintenance backlog was valued at \$46 million.

<sup>19</sup> FY 2009 American Recovery and Reinvestment Act (FS guidance) Chapter 2 p. 2-5 (March 18, 2009), and Chapters 3 and 4 (March 6, 2009) p. 3-2 and 3-3, p. 4-2 to 4-6.

When we reviewed nine payment requests that FS reimbursed by December 2009, we observed that each request was for funds spent on various program and non-program activities. FS assigned each payment to a single program fund in its financial information system rather than allocating it to the three program funds based on actual activities. For example, a \$193,841 payment included expenditures for surveying and removing eight acres of noxious weeds on Federal land (activities covered by the Hazardous Fuels Reduction on Federal Land program), but was charged entirely to the Trail Maintenance and Decommissioning program. In another example, a \$159,842 payment that included expenditures for weeding and campsite maintenance on non-Federal land (activities covered by the Hazardous Fuels Reduction on non-Federal Land program) was charged entirely to the Hazardous Fuels Reduction on Federal Land program.

The FS program manager responsible for allocating the funds could not provide us a reasonable explanation for the allocation. Since the grantee was not informed that it should track the expenditures to the three FS programs separately, FS could not accurately allocate the grant expenditures to the three FS programs.

We reported the above issue to FS' Chief in a Fast Report dated July 7, 2010.<sup>20</sup> In FS' July 22, 2010, response to our Fast Report, FS agreed to provide the grantee with specific conditions on the use of the three FS program funds and to properly allocate the expenditures. FS also agreed to recover purchases made for specific community services and facility renovation, but FS did not agree to recover purchases under "ecosystem enhancement-related community service" because those purchases were primarily related to safety requirements to work in the forest. We disagreed with the response; the purchases only represented a small portion of our questioned costs. FS needs to recover all labor and associated administrative costs unrelated to the three FS programs.

## **Recommendation 1**

Provide the grantee with specific direction on what projects should be funded by the three FS programs.

## **Agency Response**

FS concurs with this recommendation, and stated in the July 22, 2010, response to the Fast Report, that [on February 11, 2010] corrective action had been implemented by providing the grantee with specific conditions on the use of the three FS program funds.

## **OIG Position**

We accept FS' management decision on this recommendation.

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<sup>20</sup> 08703-0004-SF(1) "The Recovery Act – FS Trail Maintenance and Decommissioning" (July 7, 2010).

## **Recommendation 2**

Require the grantee to track the grant expenditures according to each program.

### **Agency Response**

FS concurs with this recommendation. The Agency has implemented corrective action by issuance of a letter [dated February 11, 2010] to the grant recipient requiring grant expenditures be tracked according to each program.

### **OIG Position**

We accept FS' management decision on this recommendation.

## **Recommendation 3**

For our questioned costs totaling \$317,741, recover all costs unrelated to the three FS programs.

### **Agency Response**

FS generally concurs with this recommendation. The Agency conducted a review of all costs in question and determined \$654 of the \$317,741 is unallowable costs. The grantee was notified through a letter correspondence of the amount of costs that was determined unallowable. The unallowable costs were offset in future invoices in order for FS to recover the \$654 by reducing it from future disbursements.

### **OIG Position**

We do not accept FS' management decision on this recommendation. As we stated in the Fast Report dated July 7, 2010, and in this report, the grant was not funded under either the Related Watershed Restoration/Ecosystem Enhancements program or WFM Ecosystem Improvement Non-Federal Lands program. Using trail and the two hazardous fuels reduction funds for a broad spectrum of watershed restoration and ecosystem improvement did not meet the specific purpose of the three programs funding the grant. Furthermore, we could not verify whether the \$654 represented both the material and labor costs for the unrelated activities because the documentation provided was insufficient.

To reach management decision, FS needs to recover all unrelated costs (labor and supplies) and provide detailed support. If the questioned costs are determined to be uncollectible because FS did not specify the conditions for the use of the funds in the grant, consider waiving the uncollectible amount.

## **Recommendation 4**

Work with the grantee to allocate over \$1.65 million of grant expenditures to the three FS programs based on the actual activities that occurred in the field.

### **Agency's Response**

FS concurs with this recommendation, and stated in the July 22, 2010, response to the Fast Report, that [on February 16, 2010] corrective action had been implemented by processing an accounting adjustment to reallocate the existing expenditures among the appropriate FS program funds.

### **OIG Position**

We accept FS' management decision on this recommendation.

## **Recommendation 5**

To prevent this issue from reoccurring with other future grants, provide guidance to grant and agreement officials to ensure all awards include clear terms and conditions on how the program funds will be used.

### **Agency Response**

FS generally concurs with this recommendation. All grants issued by the FS include specified terms and conditions/provisions detailing the recipient's responsibilities with regards to how program funds may be used. The sampled grant in question was an ARRA (Recovery Act) specific grant issued to the State of Oregon, Department of Community College and Workforce Development on April 1, 2009, during the first 10% phase of ARRA funds to be awarded. During this phase, guidance for awarding funding under ARRA was very limited as the push and intent to get funding to cooperators for stimulus purposes was emphasized. Existing guidance at that time included the "Initial Implementation Guidance for the American Recovery and Reinvestment Act of 2009." ARRA specific guidance was being developed simultaneously and not yet available at the time of this award.

Grants awarded during this phase were issued with the standard terms and conditions/provisions included for grant awards, but may have lacked ARRA specified terms and conditions given the guidance did not yet exist. Subsequent ARRA awards included specified provisions, once such provisions were developed and received. This finding does not represent a systemic gap in how funds are awarded; rather it represents an anomaly specific to the 10% of ARRA funds awarded during the initial ARRA funding announcement. 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.



Per standard FS procedure, all grants issued include specific terms and conditions regarding program fund use. The FS will continue to issue awards in this manner and be in compliance with expectations. Effective 3/15/2012, should unique funding situations arise akin to the ARRA initiative, whereby after-the-fact specified terms and conditions are developed, executed grants will be modified to include applicable terms and conditions.

## OIG Position

We accept FS' management decision on this recommendation.

### **Finding 2: FS Program Managers Did Not Adequately Review the Cooperators' Payment Requests**

FS program managers at two national forests did not adequately review payment requests from cooperators to ensure that project expenses claimed were for actual and allowable costs.<sup>21</sup> Rather than taking steps to perform additional oversight of the Recovery Act funds, they simply relied on the cooperators to submit accurate claims. As a result, we found FS overpaid \$64,096 in labor costs to one cooperator. FS also reimbursed another cooperator \$24,697 in questionable costs which included \$17,000 for improvements to a new office.

To enhance the accountability and transparency of Recovery Act funds, OMB guidance requires the agencies to take steps, beyond standard practice, to initiate additional oversight mechanisms in order to mitigate the unique implementation risks of the Recovery Act.<sup>22</sup> The FS program manager is responsible for administering the agreement, which includes monitoring the project activities, reviewing the cooperator's payment requests, and assessing the need for corrective action to address performance issues or internal control issues related to the cooperator's financial management.<sup>23</sup>

FS program managers did not always ensure that the payment requests they approved complied with the terms of the participating agreements. Specifically, one program manager approved a cooperator's payment requests even though those requests were based on estimated costs rather than actual costs for the project. Another program manager approved a cooperator's payment requests, all of which contained expenditures unrelated to the Recovery Act trail projects. These issues are discussed in detail below.

#### Overpayment to CCC

The program manager at Los Padres National Forest approved the payment requests from a cooperator, California Conservation Corps (CCC), even though the expenses claimed were based on estimated costs rather than actual costs. This occurred because rather than taking

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<sup>21</sup> A cooperator is an individual or entity that voluntarily cooperates with FS on a project and is willing to formalize the relationship by entering into a Memorandum of Understanding or agreement.

<sup>22</sup> OMB Memorandum M-09-10 (February 18, 2009).

<sup>23</sup> Forest Service Manual 1580 p. 23-24 (October 20, 2009).

steps to ensure FS' reimbursements complied with the terms of the agreement, both FS and CCC staff responsible for the Recovery Act trail project relied on an incorrect past practice in which FS always paid CCC an agreed-upon estimated rate. As a result, FS overpaid CCC \$64,096 for labor costs.<sup>24</sup>

The Recovery Act-funded participating agreement signed by FS and CCC stated "The U.S. Forest Service shall reimburse the Cooperator for the U.S. Forest Service's share of actual expenses incurred."<sup>25</sup> In addition, the FS Handbook states "the Forest Service is permitted to reimburse only those actual costs (direct and indirect) incurred by the cooperator in performing the project."<sup>26</sup>

FS awarded CCC a \$642,000 Recovery Act funded trail project in Los Padres National Forest under a participating agreement.<sup>27</sup> FS paid five CCC payment requests totaling \$460,000, which were billed based on estimated costs rather than actual costs.

Our concern prompted CCC headquarters to review its charges to FS. CCC determined that it overcharged FS \$64,096 for labor costs.<sup>28</sup> CCC's Administrative Service Division Chief, who is responsible for the agreements, explained that the overbilling error occurred because the local CCC project coordinator had mistakenly used estimated rates rather than actual project costs to bill FS.

The FS program manager explained that FS had partnered with CCC for many years and he had inherited the incorrect payment practice in which FS always paid CCC an agreed-upon estimated rate.<sup>29</sup> Therefore, he overlooked the payment terms stated in the Recovery Act-funded participating agreement. In addition, he was unaware of FS' policy that the cooperator should be reimbursed based on actual project costs.

On August 12, 2011, we reported the above issue to FS' Chief in a Fast Report.<sup>30</sup> FS agreed to provide specific notice requiring FS program managers to ensure payments for participating agreements are based on actual costs and not on an estimated rate. FS also concurred with our recommendation and recovered \$64,096 from CCC.

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<sup>24</sup>As of July 2010, CCC claimed \$460,000 out of \$642,000 awarded by Los Padres National Forest. The overpayment of \$64,096 is about 14 percent of the total claims.

<sup>25</sup> Recovery Act Participating Agreement No. 10-PA-11059702-056, p. 3 (November 25, 2009).

<sup>26</sup> Forest Service Handbook (FSH) 1509.11, section 70.3 p. 8 (October 20, 2009).

<sup>27</sup> For a selected Wilderness Trail Project in Southwest Region, we randomly selected five participating agreements and six contracts totaling \$1.3 million for review. Three of the five agreements were awarded to CCC by Los Padres National Forest, Mendocino National Forest, and Cleveland National Forest for \$642,000, \$180,000, and \$280,096, respectively.

<sup>28</sup> OIG together with the CCC regional analyst reconciled all of the project expenses with CCC's supporting documentation.

<sup>29</sup>We reviewed the invoices under an ongoing non-Recovery Act agreement between Los Padres National Forest and CCC, and we noted that FS incorrectly reimbursed CCC by using an estimated rate instead of the actual cost.

<sup>30</sup> 08703-4-SF(3) "Los Padres National Forest, Cost Overpaid to California Conservation Corps – Recovery Act- FS Trail Maintenance and Decommissioning Fast Report" (August 12, 2011).

## Questionable Costs Charged by a Non-Profit Organization

Gila National Forest did not ensure that it only paid the cooperator, a non-profit organization, for the costs incurred for two trail maintenance projects — FS allocated approximately \$370,000 for a 185-mile trail maintenance project and \$273,000 for a 145-mile trail maintenance project. This occurred because the program manager did not review supporting documents before approving the organization’s payment requests. As a result, FS paid the organization \$24,697 in questionable costs from September 2009 to April 2010.

According to FS policy, monitoring is an integral part of post-award administration. The purpose of monitoring is to ensure a cooperator meets the programmatic and financial requirements of the award. The FS program manager is required to review and ensure financial compliance with the terms of the agreement and relevant laws and regulations.<sup>31</sup>

At Gila National Forest, we reviewed two Recovery Act-funded participating agreements totaling \$643,000.<sup>32</sup> The organization used Recovery Act funds for unallowable costs, including non-project related costs. Specifically, we determined that the organization used trail funds for new office improvements. We reviewed all the expense records totaling \$306,121 for the two agreements and found that the organization spent approximately \$17,000 on new office improvements. Expenditures included labor and materials such as wire, lumber, dry wall, custom glass, cabinets, and drawers. The office improvements were not specified in the financial plans of the two Recovery Act-funded agreements.<sup>33</sup> The organization was also unable to provide any documents showing that FS had agreed to pay for the organization’s office improvements.

OMB states that “capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost *except* with the prior approval of the awarding agency;” furthermore, “equipment and other capital expenditures are unallowable as indirect costs.”<sup>34</sup> FS payment procedures also state that cooperators shall obtain prior approval of expenditures not included in the agreement financial plan and are required to report deviations from budget and program plans in accordance with the applicable Code of Federal Regulations.<sup>35</sup>

Additionally, as part of our review, we examined the organization’s accounting records. We discovered several accounting errors involving the two Recovery Act-funded agreements that were not identified and corrected before FS reimbursed the organization. For example:

- Some purchase requests did not identify the project or program associated with the purchase. We also found instances where unrelated purchases were coded as

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<sup>31</sup> FSH 1509.11, section 10 p. 23-24 (October 20, 2009).

<sup>32</sup> FS allocated approximately \$370,000 for the 185-mile project and \$273,000 for the 145-mile project.

<sup>33</sup> The financial plan is a spreadsheet attached to an agreement that displays the contribution from each party separated by cost element, which indicates the detailed breakdown of costs anticipated for the project.

<sup>34</sup> OMB Circular No. A-122, Cost Principles for Non-Profit Organizations, Attachment B 15 b (1) and 15 (d) (revised May 10, 2004).

<sup>35</sup> FSH 1509.11, section 74.4 p. 64 (October 20, 2009).

project expenses. Furthermore, when non-Recovery Act-funded purchases were reclassified as Recovery Act-funded expenditures, there was insufficient evidence to support the reclassification.

- The organization did not always include an invoice number to track its expenditures in the accounting system. Because this unique invoice number was omitted, the organization's system could not detect double accounting entries when expenditures were entered twice.
- The organization did not establish an allocation method for expenses shared between Recovery Act and non-Recovery Act-funded projects.
- In addition, the organization's method to allocate salaries for its Recovery Act-funded trail crews was inconsistent and unsupported.

The accounting errors, which included costs for non-Recovery Act projects and repeated charges for the same purchases, resulted in FS paying the organization \$7,699 in questionable costs.

The FS program manager explained that he approved the organization's payment requests without reviewing detailed support for the expenditures because the forest had partnered with the organization on prior trail projects. The program manager told us that he would not have approved the payments if he had known that the organization charged FS for costs unrelated to the two projects.

On December 30, 2010, we reported this issue to FS' Chief in a Fast Report.<sup>36</sup> In its written response (January 5, 2011), FS concurred with our recommendations and recovered \$17,873 from the organization. FS also agreed to review supporting documents before approving the cooperators' payment requests to ensure that the costs charged to FS are allowable.

## **Recommendation 6**

Recover from CCC the \$64,096 overpayment identified at Los Padres National Forest.

### **Agency Response**

FS concurs with this recommendation regarding CCC's overpayment, and stated in the August 25, 2011 response to the Fast Report, that the agency has recovered \$64,096 from CCC [on May 16, 2011].

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<sup>36</sup> 08703-4-SF(2) "Gila National Forest, New Mexico-Questionable Costs-Recovery Act-FS Trail Maintenance and Decommissioning" (December 30, 2010).

## **OIG Position**

We accept FS' management decision for this recommendation.

## **Recommendation 7**

Recover \$24,697 questionable costs identified at the non-profit organization.

## **Agency Response**

FS concurs with this recommendation, regarding Gila National Forest's questionable costs, and stated in the January 5, 2011, response to the Fast Report that the Agency recovered \$17,873 from the organization [on October 8, 2010]. Regarding the remainder of \$6,824, the Agency reviewed the detailed documentation and noted that some of the questionable costs were allowable administrative costs.

## **OIG Position**

We accept FS' management decision for this recommendation.

## **Recommendation 8**

Issue specific notice reminding FS program managers to ensure payment requests for participating agreements are based on actual costs.

## **Agency Response**

FS concurs with this recommendation, and stated in the August 25, 2011, response to the Fast Report, that the Agency will issue additional guidance to its program managers regarding reimbursements over cooperative agreements [by August 25, 2011].

## **OIG Position**

We accept FS' management decision for this recommendation.

## **Recommendation 9**

To ensure both Recovery and non-Recovery funds are used for the intended purpose, issue specific notice requiring FS program managers to sample and review the supporting documentation against the payment request.

## **Agency Response**

The FS generally concurs with this recommendation. The FS issued guidance to Program Managers by letter on June 2, 2011 regarding necessary steps that must be taken when reviewing and approving requests for payments. The letter was also published on the FS website, providing additional detailed guidance specifically identifying roles and responsibilities of the involved parties. Performance of appropriate review and maintenance of required file documentation was provided to highlight the importance of complying with ARRA requirements. FS will issue additional notification (via letter) to make Program Managers aware of their responsibilities to review all supporting documentation as required by FSH 1509.11, section 15.2, FSM 1580.41, and the applicable OMB circulars.

Additionally, in response to a Recovery Act audit, effective July 14, 2011, Grants and Agreements Specialists were notified of criteria for assessing the financial viability of new recipients of Federal Financial Assistance. The letter served as a reminder that it is the responsibility of the Grants Management Specialists to review the Financial Assistance application to ensure applicant's financial strength and capabilities are acceptable, as stated in Forest Service Handbook 1509.11, section 23.52. A checklist was provided to assess and capture grantee's management capabilities as one of the evaluative criteria used in the administrative review process prior to issuance of an award.

### **OIG Position**

We accept FS' management decision for this recommendation.

## Scope and Methodology

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To determine if Recovery Act-funded trail projects met the accountability and transparency objectives of the Recovery Act, we conducted a nationwide review of FS Recovery Act trail maintenance and decommissioning projects.

FS allocated \$99 million to 90 trail projects under the Recovery Act. We selected 24 trail projects (4 judgmentally selected and 20 randomly selected) for review (see exhibit D). We conducted a site visit at 4 Economic Recovery Operations Centers, 2 regional offices, and 20 national forests; we also visited 2 cooperators' sites and 1 grantee's site (see exhibit C). Due to weather conditions that made the project sites inaccessible, we performed desk reviews for 6 selected trail projects located at 8 national forests. We performed our audit work from September 2009 through October 2011.

Our review ultimately included a stratified sample having two strata: a judgmental stratum and a random stratum (see exhibit E). We initially drew random numbers for all projects to select a simple random sample of projects. During the preliminary phase of our audit in January 2010, however, we determined that few projects had sufficient expenditures for our testing. Therefore, we chose first to review five projects based on the criterion that a project's expenditures reached at least 20 percent of its total estimated amount. Due to an issue identified in Gila National Forest, we expanded our judgment stratum to include an additional project, for a total of six projects.

In April 2010, we elected to expand the number of projects reviewed and to employ the random sample methodology. Because two of the six projects in the preliminary review were selected in our random sample,<sup>37</sup> our judgmental sample stratum was reduced to four projects. Our final stratum of four judgmentally-selected projects consisted of nine agreements and one grant for over \$13 million.<sup>38</sup>

Our final universe for the random stratum consisted of 86 projects, including 320 contracts and 171 agreements. Our selection used a two-stage approach: the project stage, and the contract and agreement stage. For the first stage, we randomly selected 20 projects. For the second stage, if our selected project consisted of more than five contracts or five agreements, we then randomly selected a minimum of five from each category. For our 20 selected projects, we reviewed 42 of 72 contracts, and 33 of 46 agreements for nearly \$15 million.

We chose to report actual results rather than projections because we observed very few exceptions. For the sample size employed, this low error rate resulted in poor precision for the projected values.

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<sup>37</sup> Selections were identified using the originally-drawn random numbers.

<sup>38</sup> The dollar amount included the project at Caribou-Targhee National Forest with no contract or agreement awarded and \$2.875 million in CIM trail funds added to the grant through the Oregon Youth Employment Initiative Project (phase II).

To accomplish our audit, we performed the following steps and procedures:

- Reviewed applicable laws, regulations, policies, and procedures pertinent to the Recovery Act including the Recovery Act of 2009, OMB guidance, the Federal Acquisition Regulation, and FS guidance.
- Interviewed FS regional officials to understand the project selection process, fund disbursement process, and accomplishment reporting process.
- Interviewed the Economic Recovery Operations Center and national forest officials to understand the award and post-award process for execution and administration of contracts, grants, and agreements.
- Reviewed and analyzed 42 contracts, 42 agreements, and 1 grant with associated project files at both Economic Recovery Operations Centers and national forests to determine if FS awarded and administered the projects properly.
- Visited the project sites based on accessibility of the sites, interviewed the personnel, and observed the trail work.
- Interviewed select cooperators and the grantee officials to gain a better understanding of their program operation and project performance.
- Visited selected grantee and cooperators' sites to review their financial records, assess the controls over their accounting system, and examine their project progress reports to determine whether the Recovery Act funds were used for authorized purposes.

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



## Abbreviations

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CCC .....	California Conservation Corps
CIM.....	Capital Improvement and Maintenance
FS .....	Forest Service
FSH .....	Forest Service Handbook
G&A .....	Grants and Agreements
LPNF.....	Los Padres National Forest
NFS .....	National Forest System
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
USDA.....	Department of Agriculture
WFM.....	Wildland Fire Management

## Exhibit A: Summary of Monetary Results

<b>Finding Number</b>	<b>Recommendation Number</b>	<b>Description</b>	<b>Amount</b>	<b>Category</b>
1	3	Grant Funds Used for Unintended Purposes	\$317,741	Questioned Costs Recovery Recommended
1	4	Grant Expenditures Incorrectly Allocated	\$1,653,228	Other: Accounting Classification Errors
2	6	Overpayment to the Cooperator	\$64,096	Questioned Costs Recovery Recommended
2	7	Unallowable Costs Charged by the Cooperator	\$24,697	Questioned Costs Recovery Recommended
<b>TOTAL MONETARY RESULTS</b>			<b>\$2,059,762</b>	

## Exhibit B: Subgrants Used for Unrelated Activities

Subgrant Number	Amount	Unrelated Activities
GRNT0206	\$31,141	Worked in community and school gardens including digging posts, building fences, weeding, and planting; painted and landscaped for homeless drop-in center, performed farming projects for local non-profit organic farms, and built a children's play area.
GRNT0309	\$47,794	Cleaned children's park and surrounding streets and bike path; worked on watershed restoration projects such as transects set up, dauber mire and photo plot establishment, fish enumeration and capture.
GRNT0311	\$25,129	Reconstructed a trail in State park.
GRNT0312	\$63,321	Mowed and pruned 4 acres of a school facility, monitored salmon habitat, collected native seed in a school's native plant nursery; purchased several Apple iPhones ®.
GRNT0329	\$32,000	Planted, weeded, harvested vegetable garden for the food pantries; helped set up a fund raiser; cleaned and painted the county fairground before the Fair week started, set up a fair building for motorcycle show; painted, cleaned, and moved furniture for a non-profit organization; conducted research for historical cemeteries.
GRNT0336	\$32,000	Painted historic buildings at fairgrounds; cleaned up fairgrounds and did preparation work for a county fair; cleaned and restocked bathrooms for the city, helped pack and load classroom supplies for an elementary school; maintained a trail at a State park.
GRNT0343	\$27,019	Weeded a community garden, reseeded city lawns; did improvement projects at an assisted living center, removed debris and spread gravel at a visitor's center, cleaned county fairgrounds after the fair, painted public restrooms; maintained a trail at a county park.
GRNT0344	\$59,337	Maintained trails at several county parks.
<b>TOTAL</b>	<b>\$317,741</b>	

## Exhibit C: Sites Visited

Organization	Location
<u>FS Regional Offices</u> Pacific Northwest Region Pacific Southwest Region	Portland, Oregon Vallejo, California
<u>Economic Recovery Operations Centers</u> Northwest Southwest Intermountain East	Sandy, Oregon Vallejo, California Golden, Colorado Atlanta, Georgia
<u>National Forests</u> George Washington & Jefferson NF Nantahala NF Pisgah NF Shawnee NF Superior NF Green Mountain NF White Mountain NF Caribou-Targhee NF Humboldt-Toiyabe NF Mt. Hood NF Tongass NF Carson NF Coronado NF Gila NF Los Padres NF Cleveland NF Mendocino NF San Bernardino NF Angeles NF Sierra NF	Roanoke, Virginia Asheville, North Carolina Asheville, North Carolina Harrisburg, Illinois Duluth, Minnesota Rutland, Vermont Campton, New Hampshire Idaho Falls, Idaho Sparks, Nevada Sandy, Oregon Sitka, Alaska Taos, New Mexico Tucson, Arizona Silver City, New Mexico Goleta, California San Diego, California Willows, California San Bernardino, California Arcadia, California Clovis, California
<u>Cooperator/Grantee</u> Cooperator A Cooperator B State of Oregon, Department of Community College and Workforce Development	Maplewood, Minnesota Silver City, New Mexico Salem, Oregon

## Exhibit D: Trail Projects Reviewed

No.	Project	Project Name	Estimated Cost
<b>Judgmental Sample</b>			
1	CIM-0415-21T	Caribou-Targhee Forest Trail Decommissioning Protects Resources	\$207,543
2	CIM-0521-03	Region-wide Trail Maintenance Project	\$4,015,000
3	OTH-0600-1C1	Oregon Youth Employment Initiative	\$3,250,000
4	CIM-0306-08T	FY09 Trail Maintenance Agreements	\$306,842
<b>Random Sample</b>			
1	CIM-0100-02T	North Idaho Counties Trail Maintenance & Reconstruction	\$5,435,360
2	CIM-0231-09T	Veterans Jobs Trail Project	\$458,000
3	CIM-0302-23T	Identify, locate and interpret the Camino Real and Old Spanish National Historic Trails	\$102,051
4	CIM-0305-05T	Stop 9 Sabino Cyn Trail Bridge	\$120,077
5	CIM-0306-14T	FY09 Trail Maintenance Agreements	\$411,000
6	CIM-0417-02T	Mt Rose Wilderness Trails Maintenance & Stewardship	\$146,000
7	CIM-05-02T	Wilderness Trail Projects	\$4,080,000
8	CIM-0603-10T	Gifford Pinchot Trails Deferred Maintenance	\$361,666
9	CIM-0808-14T	Repair and Maintenance of the Virginal Creeper Trail Protects Visitors	\$1,475,000
10	CIM-0811-08T	North Carolina National Forests Trail Bridges Safety Maintenance	\$589,000
11	CIM-0811-09T	Roan Mountain Trails Safety Rehabilitation	\$316,000
12	CIM-0908-2T	Phase 1 - Shawnee Designated Trail Improvements	\$309,000
13	CIM-0909-1	Enhance Recreational Experiences and Minimize Environmental Impacts by Improving Forest Trails in Minnesota	\$557,000
14	CIM-0909-11T	Forest-wide Trail Maintenance	\$2,308,700
15	CIM-0920-13T	Forest-wide Recreation Trails Deferred Maintenance Reduction	\$850,000
16	CIM-0922-1	Enhance Recreational Experiences and Minimize Environmental Impacts by Improving Forest Trails in New Hampshire	\$175,298
17	CIM-1005-10T	Petersburg Mountain Trail Group Maintenance for Safety and Accessibility	\$1,481,920
18	CIM-1005-12T	Wrangell Boardwalk Trails Deferred Maintenance for Safety and Protection	\$1,521,265
19	CIM-1005-15T	Tongass OHV Bridge Replacement & Trail Maintenance for Visitor Safety and Protection	\$620,030
20	CIM-1005-3T	Lake Eva Trail Health & Safety Repair	\$868,574

## **Exhibit E: Sampling Methodology for Trails Projects**

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### Objective:

This sample was designed to support the audit of whether trails contracts, grants, agreements, and expenditures using Recovery Act funds complied with applicable laws and agency procedures.

### Audit Universe:

Our universe for this audit was the list of 90 projects with a CRTR<sup>39</sup> program code funded under the Recovery Act as of April 6, 2010. Forest Service representatives verified that the original list of 89 projects was appropriate and complete as of January 7, 2010. An additional project was added before the April 6 cut-off, bringing the total to 90.

### Sample Design and Modifications:

The final sample design was stratified by projects at the first stage, with contracts and agreements within projects selected at the second stage.

We observed that many projects had, as of January 7, 2010, little or no expenditure activity. That meant that many of the planned audit tests could not be performed yet. Therefore, we decided to create a census stratum of the five projects having the highest percentages expended compared to the projects' estimated amounts. The second stratum comprised the remaining projects.

We expected each project to involve a number of contracts, agreements, and expenditures, which could not be identified until the relevant project records were reviewed at the appropriate Economic Recovery Operations Center. Therefore, we chose to use a two-stage design within both strata, with projects selected at the first stage and contracts or agreements to be selected at the second stage.

We drew a random number for each project in the audit universe.<sup>40</sup> Five of the projects were assigned to Stratum I based on their expenditure ratio. However, two of those five had very low random numbers. When we expanded the audit work to include the random stratum, those low random numbers placed them among the projects selected for review in the second stratum sample. In the second stratum, therefore, we had a total of 20 randomly-selected projects for review.

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<sup>39</sup> CRTR is a program code established by FS to identify all the trail maintenance and decommission projects funded by Recovery Act.

<sup>40</sup> We drew random numbers using the Excel® randbetween (1,999) function.

When another project was added later, we drew a random number for it using the same range in “randbetween” and placed the additional project into the selection order for Stratum II based on that random number. This resulted in the new project becoming one of the 20 in the simple random sample from the second stratum, and the project originally in the 20<sup>th</sup> position dropped out of the sample.

We had no information on which to base a sample size calculation. In particular, we did not know whether to expect the variance within clusters or the variance between clusters to dominate. Therefore, the total sample of 24 projects is arbitrary.

As the projects were reviewed at the Economic Recovery Operations Center-level, we obtained information on the recipients and the contracts, agreements, and expenditures. That information was used to make second stage selections for review in the audit.

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







Forest  
Service

Washington  
Office

1400 Independence Avenue, SW  
Washington, DC 20250

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**File Code:** 1430

**Date:** April 2, 2012

**Route To:**

**Subject:** Response to OIG Draft Report No. 08703-04-SF , "The Recovery Act - Forest Service Trail Maintenance and Decommissioning," dated March 2, 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 Trail Maintenance and Decommissioning," dated March 2, 2012. The Forest Service generally concurs with the report's findings and recommendations. The agency's comments regarding the status of recommendation numbers 1, 4, 6, 7 and 8, and our plans to implement recommendation numbers 2, 3, 5 and 9 are enclosed.

If you have any questions, please contact Thelma Strong, Acting Chief Financial Officer, at 202-205-1321 or [tstrong@fs.fed.us](mailto:tstrong@fs.fed.us).

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

cc: Dianna Capshaw  
Erica Y Banegas  
George A Sears  
Melissa Dyniec  
Melissa A Moreira  
Lindsey E DeShazer  
Elizabeth Donnelly



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**USDA Forest Service (FS)**

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**Office of Inspector General (OIG) Draft Audit Report No. 08703-0004-SF**  
**The Recovery Act - FS Trail Maintenance and Decommissioning**

**Status Update and Closure**

=====

**OIG Recommendation #1:** Provide the grantee with specific direction on what projects should be funded by the three FS programs.

**FS Response:** FS concurs with this recommendation, and stated in the July 22, 2010 response to the Fast Report, that corrective action had been implemented by providing the grantee with specific conditions on the use of the three FS program funds.

**OIG Position:** We accept FS' management decision on this recommendation.

**Estimated Completion Date:** July 22, 2010

**FS Actions Completed to date:** FS requests closure of this recommendation. The Agency completed corrective action by the issuance of a letter providing the grantee with specific conditions on the use of the Forest Service programs. See **Enclosure A**.

-----

**OIG Recommendation 4:** Work with the grantee to allocate over \$1.65 million of grant expenditures to the three FS programs based on the actual activities that occurred in the field.

**FS Response:** FS concurs with this recommendation, and stated in the July 22, 2010 response to the Fast Report, that corrective action had been implemented by processing an accounting adjustment to reallocate the existing expenditures among the appropriate FS program funds.

**OIG Position:** We accept FS' management decision on this recommendation.

**Estimated Completion Date:** July 22, 2010

**FS Actions Completed to date:** FS requests closure of this recommendation. The FS completed corrective action processing an accounting adjustment to reallocate the existing expenditures among the Forest Service program funds. See **Enclosure G**.

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**OIG Recommendation 6:** Recover from CCC the \$64,096 overpayment identified at Los Padres National Forest.

**FS Response:** FS concurs with this recommendation regarding CCC's overpayment, and stated in the August 25, 2011 response to the Fast Report, that the agency has recovered \$64,096 from CCC.

**OIG Position:** We accept FS' management decision for this recommendation.

**Estimated Completion Date:** May 16, 2011

**FS Actions Completed to date:** FS requests closure of this recommendation. The FS completed corrective action by requesting reimbursement for the overpayment. The excess funds were recovered on May 16, 2011. See **Enclosure H and I.**

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**OIG Recommendation 7:** Recover \$24,697 questionable costs identified at the non-profit organization.

**FS Response:** FS concurs with this recommendation, regarding Gila National Forest's questionable costs, and stated in the January 5, 2011 response to the Fast Report that the Agency recovered \$17,873 from the organization. Regarding the remainder of \$6,824, the Agency reviewed the detailed documentation and noted that some of the questionable costs were allowable administrative costs.

**OIG Position:** We accept FS' management decision for this recommendation.

**Estimated Completion Date:** October 8, 2010

**FS Actions Completed to date:** FS requests closure of this recommendation. The FS completed corrective action by the Forest Service identifying \$17,872.79 as unallowable and issuing a Bill of Collection. The excess funds were recovered on October 8, 2010. See **Enclosure J.**

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**OIG Recommendation 8:** Issue specific notice reminding FS program managers to ensure payment requests for participating agreements are based on actual costs.

**FS Response:** FS concurs with this recommendation, and stated in the August 25, 2011 response to the Fast Report, that the Agency will issue additional guidance to its program managers regarding reimbursements over cooperative agreements.

**OIG Position:** We accept FS' management decision for this recommendation.

**Estimated Completion Date:** August 25, 2011

**FS Actions Completed to date:** FS requests closure of this recommendation. The FS completed corrective action by issuing guidance to Program Managers. See **Enclosure K.**

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**USDA Forest Service (FS)**

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**Office of Inspector General (OIG) Audit Report No. 08703-0004-SF**  
**The Recovery Act - FS Trail Maintenance and Decommissioning**

**Management Decision**

=====

**OIG Recommendation 2:** Require the grantee to track the grant expenditures according to each program.

**FS Response:** FS concurs with and requests closure of this recommendation. The Agency has implemented corrective action by issuance of a letter to the grant recipient requiring grant expenditures be tracked according to each program. See **Enclosure A**.

**Estimated Completion Date:** February 11, 2010

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**OIG Recommendation 3:** For our questioned costs totaling \$317,741, recover all costs unrelated to the three FS programs.

**FS Response:** FS generally concurs with and requests closure of this recommendation. The Agency conducted a review of all costs in question and determined \$654 of the \$317,741 is unallowable costs. The grantee was notified through a letter correspondence of the amount of costs that was determined unallowable. The unallowable costs were offset in future invoices in order for FS to recover the \$654 by reducing it from future disbursements. See **Enclosures B, C, D, E, and F**.

**Estimated Completion Date:** August 8, 2010

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**OIG Recommendation 5:** To prevent this issue from reoccurring with other future grants, provide guidance to G&A officials to ensure all awards include clear terms and conditions on how the program funds will be used.

**FS Response:** FS generally concurs with and requests closure of this recommendation. All grants issued by the FS include specified terms and conditions/provisions detailing the recipient's responsibilities with regards to how program funds may be used. The sampled grant in question was an ARRA specific grant issued to the State of Oregon, Department of Community College and Workforce Development on April 1, 2009, during the first 10% phase of ARRA funds to be awarded. During this phase, guidance for awarding funding under ARRA was very limited as the push and intent to get funding to cooperators for stimulus purposes was emphasized. Existing guidance at that time included the "Initial Implementation Guidance for the American Recovery and Reinvestment Act of 2009." ARRA specific guidance was being developed simultaneously and not yet available at the time of this award.

Grants awarded during this phase were issued with the standard terms and conditions/provisions included for grant awards, but may have lacked ARRA specified terms and conditions given the guidance did not yet exist. Subsequent ARRA awards included specified provisions, once such provisions were developed and received. This finding does not represent a systemic gap in how funds are awarded; rather it represents an anomaly specific to the 10% of ARRA funds awarded during the initial ARRA funding announcement. 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. See **Enclosure L**.

Per standard FS procedure, all grants issued include specific terms and conditions regarding program fund use. The FS will continue to issue awards in this manner and be in compliance with expectations. Effective 3/15/2012, should unique funding situations arise akin to the ARRA initiative, whereby after-the-fact specified terms and conditions are developed, executed grants will be modified to include applicable terms and conditions.

**Estimated Completion Date:** March 15, 2012

-----  
**OIG Recommendation 9:** To ensure both Recovery and non-recovery funds are used for the intended purpose, issue specific notice requiring FS program managers to sample and review the supporting documentation against the payment request.

**FS Response:** The FS generally concurs with this recommendation. The FS issued guidance to Program Managers by letter on June 2, 2011 regarding necessary steps that must be taken when reviewing and approving requests for payments. The letter was also published on the FS website, providing additional detailed guidance specifically identifying roles and responsibilities of the involved parties. Performance of appropriate review and maintenance of required file documentation was provided to highlight the importance of complying with ARRA requirements. FS will issue additional notification (via letter) to make Program Managers aware of their responsibilities to review all supporting documentation as required by FSH 1509.11, section 15.2, FSM 1580.41, and the applicable OMB circulars.

Additionally, in response to a Recovery Act audit, effective July 14, 2011, Grants and Agreements Specialists were notified of criteria for assessing the financial viability of new recipients of Federal Financial Assistance. The letter served as a reminder that it is the responsibility of the Grants Management Specialists to review the Financial Assistance application to ensure applicant's financial strength and capabilities are acceptable, as stated in Forest Service Handbook 1509.11, section 23.52. A checklist was provided to assess and capture grantee's management capabilities as one of the evaluative criteria used in the administrative review process prior to issuance of an award.

**Estimated Completion Date:** December 31, 2012

Informational copies of this report have been distributed to:

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Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division

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