



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



DATE: September 1, 2010

REPLY TO
ATTN OF: 08703-5-SF (2)

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: State of Florida Needs to Be Required to Justify Equipment Purchases - The Recovery Act – FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (2)

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 that 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 included \$200 million¹ for FS to implement Wildland Fire Management (WFM) activities² on State and private lands. FS' Southern region received \$53 million of that amount and is using grants to competitively award these funds to State, local, and tribal governments, and non-profit organizations. The State of Florida received \$10.5 million of the \$53 million to fund four of its Recovery Act grant projects. We reviewed, as part of our statistical sample, Florida's largest grant project (Florida Community's Fuels Management

¹ This amount excludes \$50 million designated for non-Federal Wood to Energy grants.

² These activities include hazardous fuels reduction, forest health, and ecosystem improvements.

Program – Phase II), totaling \$6.3 million. The objective of the grant was to conduct hazardous fuels mitigation work throughout the State of Florida. As part of the grant, the State of Florida is purchasing \$3.3 million worth of equipment to support its efforts in performing the hazardous fuels mitigation work. FS has established four Economic Recovery Operations Centers (EROCs) that are responsible for executing and managing the grants in a consistent manner agencywide.³ FS' Southern EROC is responsible for administering the Recovery Act grants awarded to the State of Florida. Our audit's primary objective was to determine whether FS and subsequent recipients of the Recovery Act funds for WFM activities on State and private lands complied with laws and regulations pertaining to the Recovery Act funding.

In assessing the Southern region and EROC's policies, procedures, and controls over Recovery Act-funded grants to non-Federal entities, we found that the State of Florida had not adequately justified its equipment purchases, totaling almost \$3.3 million (over half the funds it received) for the grant we reviewed. The State planned to spend \$1.2 million Statewide to purchase mowers and trucks to transport the mowers and \$2.1 million to purchase other equipment, such as fire engines, bulldozers, and pickup trucks. However, the State did not adequately support its need for the mowers and transport trucks or justify its decision to buy instead of lease the other equipment. At the time the grant was made, the EROC and region lacked specific guidance from FS' Washington Office on how to handle equipment purchases, particularly those related to Recovery Act work. Without adequate justification for the equipment purchases, FS cannot be assured that the State's plan for the grant funds will achieve the Recovery Act's overall objective of maximizing job creation and retention while meeting resource objectives in the most cost effective manner possible. Although we reviewed only one of the region's Recovery Act grants that contained capital asset purchases, FS staff indicated all grants involving capital asset purchases were handled similarly.⁴ This report is one in a series of reports pertaining to Recovery Act-funded grants to non-Federal entities. The issues discussed below, along with any others identified, will be compiled into a final report at the conclusion of our audit.

At the onset of the Recovery Act, FS had deferred to the standard OMB guidance regarding equipment purchases for non-Federal entities, which only required that FS approve the equipment purchases in advance.⁵ The FS Handbook required that the lease versus buy option be considered, but it did not require that this analysis be included in the grant agreement.⁶ It was not until the FS Recovery Act program guidance update of August 14, 2009, that the accountability and transparency requirements of the Recovery Act were addressed for equipment purchases by non-Federal entities.⁷ The program guidance included the requirement that if non-Federal entities wished to purchase capital assets (i.e. equipment), then the grant narrative would have to address how the equipment was essential for project success and why rental/leased equipment was not viable. Because these requirements were not addressed until after many Recovery Act grants had already been awarded, equipment purchases were approved without being adequately supported.

³ The four EROCs are located in Vallejo, California (Southwest EROC); Portland, Oregon (Northwest EROC); Denver Colorado (Intermountain EROC); and Atlanta, Georgia (East EROC).

⁴ Only one of Florida's statistically selected grants contained capital asset purchases.

⁵ OMB Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments.

⁶ Forest Service Handbook 1509.11 – Grants, Cooperative Agreements, and Other Agreements Handbook, Ch. 23.52 – Review of the Application Package.

⁷ FY 2009/2010 American Recovery and Reinvestment Act, USDA Forest Service, Chapter 4 – Accountability and Transparency, page 4-25, August 14, 2009.

Our review of the \$6.3 million grant to the State of Florida allowed approximately \$3.3 million (over half of the grant funds) to be used to purchase equipment and supplies (see following table showing the equipment and supplies the State of Florida purchased with the grant funds).⁸ According to the grant agreement, \$1.2 million of the grant funds would be used to purchase five mowers (valued at \$146,000 each) and five trucks to transport the mowers (valued at \$85,000 each) for State employees to complete fuels reduction projects within the State of Florida. However, neither the grant application nor the grant justified the need for the equipment to complete the work on the Recovery Act-funded grant.

Equipment and Supplies Purchased for the Florida Community Fuels Management Program (Phase II) Grant		
Category	Number Purchased	Total Cost
<u>Equipment</u>		
Mowers	5	\$730,000
Transport trucks for mowers	5	\$425,000
Transport trucks for burn teams	3	\$255,000
Type 3 Bulldozers	3	\$489,000
Type 6 Fire Engines	3	\$240,000
Crew Cab Pickups	3	\$81,000
All Terrain Vehicle (ATV) with Trailer	3	\$27,000
Suburban Utility Vehicle (SUV)	1	\$27,000
Slip in Unit	1	\$20,000
ATV Burn Machine	3	\$6,000
Total Equipment		\$2,300,000
<u>Supplies</u>		
Equipment Maintenance	N/A	\$588,000
Fuel, Herbicides, etc	N/A	\$400,000
Total Supplies		\$988,000
Total Equipment and Supplies		\$3,288,000

According to the grant agreement, the remaining \$2.1 million would be used to purchase additional equipment, such as bulldozers, fire engines, and transport trucks for the burn teams (\$1.1 million); pay for equipment maintenance (\$588,000); and buy supplies (\$400,000).

⁸ The grant's project name is Florida Community Fuels Management Program, Phase II.

The grant agreement and interviews with State officials also stated that this equipment would support the creation of three prescribed burn teams⁹ to conduct fuel reduction work throughout the State. The formation of these teams would create 14 new positions. However, neither the grant application nor the grant justified why purchasing this equipment was more cost effective than renting or leasing it.

During our fieldwork at the State of Florida's Division of Forestry, State officials presented their reasons, along with documentation, on why they needed to purchase the equipment in order to achieve the grant's purpose. Subsequent to our fieldwork at the State of Florida's Division of Forestry, the State also submitted documentation to FS to justify the purchase of the equipment. This justification focused on the cost of purchasing versus leasing the specialized operational and safety features needed on the equipment; the availability of equipment for lease; and the Florida laws and regulations regarding the renting or leasing of equipment.

We reviewed the State's justification and concluded that it was not sufficient. Although the State was able to justify the need to buy, instead of lease, the equipment based upon cost analysis and the availability of safety and operational features, the State still had not justified the need for the mowers and trucks to transport the mowers to complete the work on the Recovery Act-funded grant. At the completion of our review, the State of Florida's Division of Forestry was working on providing additional information to justify the need to purchase mowers and mower transport trucks for the Recovery Act-funded grant. Without further justification, the purchase of mowers and trucks to transport them does not appear to be necessary for the State to perform the project work approved in the grant. FS needs to obtain justification for the mowers and transport trucks or disallow the purchase of the equipment.

When this issue was brought to the attention of FS, FS' Director of Acquisition Management promptly issued additional guidance regarding equipment acquired under grant awards. The guidance specifically states that, "equipment purchased under a grant must be required for the successful performance of the grant's statement of work (purpose)." However, the new guidance did not specify what documentation is required in the grant agreement to support the need for the equipment and whether the equipment should be purchased or leased.

To ensure consistent and sufficient accountability over Recovery Act-awarded funds, FS needs to provide additional guidance to the regions and the EROCs specifying what documentation is required from the grantee to justify equipment purchases with Recovery Act funds. In addition, FS needs to instruct both its regions and EROCs to review all existing Recovery Act-funded grant agreements to ensure that the equipment purchases are adequately supported and, for those that are not, to obtain the required justification. In those instances where the equipment was already purchased, FS should disallow the cost and recover any reimbursements already made to the grantee for the equipment. On May 18, 2010, we discussed our concerns with FS Washington Office officials who generally agreed with our finding and recommendations.

⁹ Prescribed burn teams are used to intentionally set fires under tightly controlled conditions in order to thin out the forest understory to prevent the accumulation of excess fuels (e.g., dry brush and small diameter trees) and restore the forest to a healthy state.

Recommendations:

1. Obtain from the State of Florida's Division of Forestry justification for the five mowers and five trucks used to transport them.
2. Provide additional guidance to the regions and the EROCs specifying what documentation is required from a grantee to justify equipment purchases for Recovery Act-funded grants.
3. Instruct both the regions and the EROCs to review all existing Recovery Act-funded grant agreements to ensure that the equipment purchases are adequately supported and, for those that are not, to obtain the required justification.
4. In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, disallow the cost and recover any reimbursements already made to the grantee for the equipment.

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.

USDA'S

FOREST SERVICE

RESPONSE TO AUDIT REPORT



File Code: 1430-1

Date: September 17, 2010

Subject: Response to Audit Report No. 08703-5-SF(2) "The Recovery Act - Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (2)

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

This letter is in response to the Audit Report No. 08703-5-SF (2) The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (2) received on September 1, 2010 from the US Department of Agriculture Office of the Inspector General (OIG). The response for each recommendation is the following:

OIG Recommendation #1: Obtain from the State of Florida's Division of Forestry justification for the five mowers and five trucks used to transport them.

Forest Service Response: The FS agrees with this recommendation. Justification was obtained on September 9, 2010 (See Enclosure A) from the State of Florida's Division of Forestry. The justification for the need and benefit to the project of the mowers and fuel mulching equipment was reviewed and approved by the FS.

OIG Recommendation #2: Provide additional guidance to the regions and the EROCs specifying what documentation is required from a grantee to justify equipment purchases for Recovery Act-funded grants.

Forest Service Response: The FS agrees with this recommendation. Guidance was provided in a memo dated February 4, 2010 (See Enclosure B). Additional guidance will be provided that is specific to the documentation required from a grantee to justify equipment purchases. This additional guidance will be provided by October 1, 2010.

OIG Recommendation #3: Instruct both the regions and the EROCs to review all existing Recovery Act-funded grant agreements to ensure that the equipment purchases are adequately supported and, for those that are not, to obtain the required justification.

Forest Service Response: The FS agrees with this recommendation. We will conduct a random sample of existing Recovery-Act funded grant agreements specifically to ensure that equipment purchases are adequately supported. Appropriate action, if necessary, will be taken following the review.

OIG Recommendation #4: In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, disallow the cost and recover any reimbursements already made to the grantee for the equipment.



Gil H. Harden, Assistant Inspector General for Audit

Forest Service Response: The FS agrees with this recommendation. Appropriate action will be taken to disallow the cost and recover any reimbursements where equipment purchases were not adequately justified.

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

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