



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



DATE: February 24, 2011

AUDIT
NUMBER: 08703-5-SF(3)

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: States Not Selecting Projects Meeting Recovery Act Requirements - The
Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem
Restoration on Non-Federal Lands (3)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided the Department of Agriculture (USDA) with \$28 billion in funding.¹ Of this amount, \$1.15 billion was specifically allotted to 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. Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Further, on February 18, 2009, the Office of Management and Budget (OMB) issued initial guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.² OMB issued additional guidance on April 3, 2009, to clarify existing requirements and establish additional steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act. Moreover, OMB emphasized that, due to the unique implementation risks of the Recovery Act, agencies must take steps, beyond standard practice, to initiate the additional oversight mechanisms.³ The USDA's

¹ Public Law 111-5, February 17, 2009.

² Office of Management and Budget Memorandum M-09-10.

³ Office of Management and Budget Memorandum M-09-15.

Office of Inspector General (OIG) was charged with the responsibility of overseeing 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 million⁴ for FS to implement Wildland Fire Management (WFM) activities on State, county, and private lands.⁵ FS is using grants to award these funds to State, local and tribal governments, and non-profit organizations whose proposed projects meet the Recovery Act's selection criteria. These non-Federal entities apply for the Recovery Act funds by submitting to FS a written description of the project work they intend to accomplish, the location where the project work will occur, and the project's estimated cost. The \$200 million was allocated to complete 152 different projects. Each project could include more than one grant. Eighteen of the non-Federal WFM projects, valued at \$54 million (27 percent of the \$200 million), were approved for Statewide work. FS' written description for these projects only specified that project work would be carried out on State and private lands and that the States would later determine where the project work would ultimately occur. We reviewed 6 of the 18 Statewide non-Federal WFM Recovery Act-funded projects, consisting of 10 grants valued at \$29 million, to determine whether the States ultimately selected project work within their State that met Recovery Act eligibility requirements.⁶ The ten grants selected were all made to States located within the FS' Southern Region.

Our review of 3 of the 10 Statewide non-Federal WFM Recovery Act-funded grants found that less than 25 percent of the \$3.2 million in Recovery Act funds awarded would be used in the most economically distressed counties with the greatest environmental risk. For the remaining seven grants, we could not determine where the funds would ultimately be spent because either the State had yet to decide the location of the project work or we had yet to obtain project data from the grantee. However, the grant agreements for all 10 of the Statewide non-Federal WFM Recovery Act-funded grants selected specified that the project work would occur where the need to meet natural resource objectives was the greatest. Only two of the grants also specified the need to conduct the work in economically distressed counties. For the Statewide grants, identification of the actual projects occurs after the signing of the grant agreement. The signed grant agreements did not require that the States follow any particular methodology when selecting the projects they would ultimately complete with the grant funds. FS had not considered the need to require that States also use a scoring system like the one it used to award the Recovery Act funds to the States since FS had already taken into consideration the overall economic and environmental health of each State when awarding the Recovery Act grants on a Statewide basis. As a result, the States ultimately selected the location of the Recovery Act project work based primarily on natural resource needs, with little or no consideration for the economic conditions of their individual counties. The States did not target the Recovery Act funds to those counties that best met both Recovery Act objectives (i.e., the selected projects would benefit the most economically distressed

⁴ This amount excludes \$50 million designated for non-Federal Wood-to-Energy grants.

⁵ These activities include hazardous fuels reduction, forest health, and ecosystem improvements.

⁶ The ten reviewed grants encompass six FS Washington office-approved projects and represent approximately 44 percent of FS' approved Statewide non-Federal WFM projects.

areas and achieve the greatest natural resource benefits.) This report is one in a series of reports pertaining to Recovery Act funded grants to non-Federal entities, and the issue below, along with any others identified, will be compiled into a final report at the conclusion of our audit.

The Recovery Act required that the funds be used to preserve and create jobs and promote economic recovery. It also required that the funds be invested for purposes, such as environmental protection, that will provide long-term economic benefits.⁷ To meet this mandate, FS' Washington office (WO) established a scoring system to determine the most suitable areas to fund Recovery Act projects. FS developed a combined composite score for each project that considered both the economic and ecological importance of each project. The combined composite score was the primary factor in the selection of projects. To calculate the combined composite score, FS first calculated a distress score for each county in the nation. The distress scores were calculated for each county using employment data provided by the Bureau of Labor Statistics, an agency within the Department of Labor. Based on this analysis, agency officials categorized each county based on the degree of distress and provided each with a rank of 0 (lowest distress level score) to 10 (highest distress level score).⁸ For WFM projects only, ecological regression was also used as a companion criterion, and included fire risk and insect disease risk. A composite map layer was developed and criterion was weighted as follows: Unemployment Data (50 percent), Wildland Fire Potential (25 percent), and Insect and Disease Risk (25 percent). The ecological layers were overlaid with the economic distress score to develop a combined composite score. Each county in the country was then rated and ranked using the combined composite score. A score of 0 to 44 was low, 45 to 64 medium, 65 to 74 medium/high, 75 to 84 high, and 85 to 100 very high. FS assigned each proposed project a combined composite score based on the county where the work would be performed. For those projects that were proposed Statewide, FS' WO assigned the State an overall combined composite score by using the median of the State's individual county scores.

Where FS' methodology provided a reasonable basis on which to select projects that best met the Recovery Act's objectives (i.e., the selected projects would benefit the most economically distressed areas and achieve the greatest natural resource benefits), there was nothing comparable at the State level to ensure the projects it ultimately selected for the Statewide grants also best met Recovery Act objectives. FS had not considered the need to require that States also use the combined composite scores or a similar process to determine the ultimate location of the Recovery Act work since the funds were already awarded based on the States' overall median scores. Although the States' overall median combined composite scores reflected the States' overall economic distress and environmental risk, they did not necessarily reflect that of each individual county. As a result, less than 25 percent of the \$3.2 million in Recovery Act funds awarded for the three grants reviewed where the actual project sites were already selected would be used in those counties with the highest combined composite scores (see table below).⁹

⁷ American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5, 123 Stat. 115), Section 3 (a) and (b).

⁸ The ranking system was divided as follows: a score of 9 – 10 was considered very high distress, a score of 8 was considered high distress, a score of 7 was considered medium/high distress, a score of 5 – 6 was considered medium distress, and a score of 0 – 4 was considered low distress.

⁹ The planned and actual project expenditures we identified equated to 72 percent of the Recovery Act funds FS approved for the 3 grants. The remaining funds from the grants are dedicated for non-county specific spending.

GRANT NUMBER	COMBINED COMPOSITE SCORES				
	Low 0-44	Medium 45-64	Medium/High 65-74	High 75-84	Very High 85-100
09-DG-11084419-035 ¹⁰	\$754,128	\$339,265	\$296,125	\$15,940	\$117,000
09-DG-11084419-036 ¹¹	\$101,937	\$233,464	\$189,204	\$116,505	\$453,458
09-DG-11084419-002 ¹²	\$31,900	\$171,425	\$94,150	\$58,316	\$193,996
TOTAL	\$887,965	\$744,154	\$579,479	\$190,761	\$764,454
	28%	24%	18%	6%	24%

The 10 grants we selected for review were Statewide non-Federal WFM Recovery Act grants awarded to the States of Alabama, Florida, Georgia, North Carolina, and South Carolina. Counties in these States had combined composite scores that ranged from 9 (lowest economic stress and resource benefit) to 100 (highest economic stress and resource benefit). Our review of the 10 grants for the Statewide non-Federal WFM Recovery Act funded projects showed that only two of the grant narratives specifically designated a portion of the Recovery Act funds (about \$2 million of the \$29 million) for work in economically distressed areas.¹³ Most of the awarded funds were designated for project work throughout the States, based on various natural resource objectives (i.e., to treat invasive weeds, remove excessive brush, etc.). The need to conduct work meeting both Recovery Act objectives (i.e., high economic stress and resource benefit) was generally not discussed in the grant narratives approved by FS regional office officials. FS field staff we spoke to in the Southern Region informed us that they did not specifically evaluate Statewide non-Federal WFM Recovery Act grant requests to ensure proposed projects also benefitted economically distressed areas. Instead, they awarded Recovery Act funds to the States based solely on general descriptions of the resource work the States expected to accomplish (e.g., the number of acres of invasive plants States intended to treat). FS field staff believed that grants awarded based on the State's general resource needs were appropriate because the projects had been approved by the FS WO on a Statewide basis. However, the FS WO selection process included both economic and ecological factors, while the State selection process did not. Had the States used the combined composite scores developed by FS or a similar process, they could have focused the funds in those areas of the State that were the most economically

¹⁰ Regional Longleaf Pine Restoration Initiative and Fuel Reduction Grant in Alabama.

¹¹ Regional Longleaf Pine Restoration Initiative and Fuel Reduction Grant in Florida.

¹² Florida Fuels Community Management Program (Phase 1) Grant.

¹³ A \$6.3 million grant awarded to the State of Alabama specified that \$500,000 (about 8 percent) would be spent for project work in selected counties designed to assist underserved and limited income participants. A \$1.6 million grant awarded to the State of Florida specified that communities with the highest unemployment rates would be given funding priority.

distressed (with a combined composite score of 75 or higher) and provided for the greatest natural resource benefits.

To ensure that States' non-Federal WFM Recovery Act-funded projects meet Recovery Act objectives (i.e., benefit the most economically distressed areas and achieve the greatest natural resource benefits), FS needs to follow up with those States with approved Statewide non-Federal WFM Recovery Act-funded grants to identify on-the-ground project work that has not yet been started. For those projects not yet started, FS needs to issue further guidance to the States, requiring that they either use the combined composite scores FS developed or a similar process that the States develop to direct the Recovery Act funds to those projects that best meet Recovery Act objectives. For those grants with projects not yet started, FS also needs to monitor the States' progress in directing the Recovery Act funds to more suitable projects. On November 4, 2010, we discussed our concerns with FS officials, who generally agreed with our finding and recommendations.

Recommendations:

1. Follow up with those States with approved Statewide non-Federal WFM Recovery Act funded grants to identify on-the-ground project work that has not yet been started.
2. For those projects not yet started, issue further guidance to the States requiring that they either use the combined composite scores FS developed or a similar process that the States develop to direct the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.
3. For those grants with projects not yet started, monitor the States' progress in directing the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.

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, Audit Director, Rural Development and Natural Resources Programs, at (202) 690-4483.

cc:

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USDA'S

FOREST SERVICE'S

RESPONSE TO AUDIT REPORT



File Code: 1430

Date: March 11, 2011

Subject: Response to 08703-5-SF (3) States Not Selecting Projects Meeting Recovery Act Requirements. The Recovery Act-Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (3)

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

This letter is in response to Audit Report No. 08703-5-SF (3) States Not Selecting Projects Meeting Recovery Act Requirements. The Recovery Act – Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (3) dated February 24, 2011 from the US Department of Agriculture Office of the Inspector General. We appreciate the opportunity to respond to your audit. The response for each recommendation follows:

OIG Recommendation #1: Follow up with those States with approved statewide non-Federal WFM Recovery Act funded grants to identify on-the-ground project work that has not yet been started.

Forest Service Response: The FS agrees with this recommendation. A letter will be issued to all Regions requesting that they remind States receiving statewide Non-Federal WFM Recovery Act funds that ARRA projects should be focused in the most economically distressed areas of the States. This letter will be issued by March 31, 2011. In regards to the findings identified in this report specific to Region 8 States with State-wide grants, they have obligated the majority of the funding they received; however, the States have also begun reviewing the remaining funds and are in the process of shifting those funds, if appropriate, to areas that are more economically distressed.

OIG Recommendation #2: For those projects not yet started, issue further guidance to the States requiring that they either use the combined composite scores FS developed or a similar process the States develop to direct the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.

Forest Service Response: The FS agrees with this recommendation. The letter noted in recommendation one will be sent to all Regions advising them to remind all States to use the FS developed composited scores to identify the most economically distressed areas or a similar process on projects not yet begun. In regards to the findings identified in this report specific to Region 8, the region has issued a reminder to the States (attached) that Recovery Act grant projects should be focused towards medium to very high economically distressed counties. Grantees in Region 8 have verbally agreed to make changes needed to meet this guidance wherever possible.



OIG Recommendation #3: For those grants with projects not yet started, monitor the States' progress in directing the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.

Forest Service Response: The FS agrees with this recommendation. The Forest Service will issue guidance to all Regions to serve as a reminder to monitor the States' progress in directing funding from approved statewide non-Federal WFM Recovery Act funded grants, to on-the-ground projects that best meet Recovery Act objectives. The guidance will include details on the frequency of the monitoring to assess States' progress to best meet Recovery Act objectives, and will be issued by March 31, 2011.

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