



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



DATE: May 5, 2011

AUDIT  
NUMBER: 08703-5-SF (6)

TO: Thomas L. Tidwell  
Chief  
Forest Service

ATTN: Donna M. Carmical  
Chief Financial Officer

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

SUBJECT: Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed  
Were Unsupported - The Recovery Act - Forest Service (FS) Hazardous Fuels  
Reduction and Ecosystem Restoration on Non-Federal Lands (6)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided the Department of Agriculture (USDA) with \$28 billion in funding.<sup>1</sup> Of this amount, \$1.15 billion was 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.<sup>2</sup> 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.<sup>3</sup> The USDA's Office of Inspector General (OIG) was charged with the responsibility of overseeing FS and

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

<sup>2</sup> Office of Management and Budget Memorandum M-09-10.

<sup>3</sup> Office of Management and Budget Memorandum M-09-15.

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 million<sup>4</sup> for FS to implement Wildland Fire Management (WFM) activities on State, county, and private lands.<sup>5</sup> From May through September 2009, FS' Washington Office (WO) approved 152 WFM projects on non-Federal lands. FS field staff at the Regional and National Forest levels primarily used grants to award the approved project funds to State, local, and Tribal governments, and non-profit organizations. These non-Federal entities applied for Recovery Act funds by submitting to FS grant proposals describing the anticipated project work and its estimated cost. We reviewed 8 of the 152 projects, consisting of 17 grants valued at \$44 million, to determine whether FS and subsequent recipients of the Recovery Act funds complied with laws and regulations pertaining to the Recovery Act funding.<sup>6</sup> The 17 grants reviewed were all made to grant recipients within the FS' Southwest (Region 3), Pacific Southwest (Region 5), and Southern Regions (Region 8).

For 6 of the 17 Recovery Act grants reviewed, we found that the grant recipients did not comply with the salary allocation requirements outlined in OMB Circular No. A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*) (OMB A-87). The grant recipients did not have financial accounting processes in place to properly allocate and support the salary costs they charged to both their Recovery Act and non-Recovery Act funded grants and instead either used predetermined percentages or other unallowable methodologies to allocate their salary expenses to the grants. Although the grant agreements referenced OMB A-87, which contained specific cost allocation and documentation requirements, the grant recipients claimed they were not fully aware of the requirements because FS had not specifically discussed the requirements with them. FS staff either assumed grant recipients' cost allocation processes were adequate or they accepted verbal assurances from the grant recipients without obtaining any additional evidence that the grant recipients' cost allocation processes actually complied with OMB's cost allocation requirements. Due to FS' lack of oversight, grant recipients were reimbursed \$389,747 in unsupported salary costs for five of the six grants reviewed. We are still in the process of quantifying the amount that the remaining grant recipient was reimbursed for its unsupported salary costs. This amount could exceed \$28 million for the six grant recipients after including all of their other FS Recovery Act and non-Recovery Act grants also affected by this control deficiency (see table on page 6). This fast report is one in a series of reports pertaining to Recovery Act-funded grants to non-Federal entities, and the issue discussed below, along with any others identified, will be compiled into a final report at the conclusion of our audit. We are reporting this issue in a fast report so that FS is timely notified of the problem and can take immediate action to correct it.

Personnel costs (e.g., salaries, fringe benefits, and leave) are usually a substantial percentage of a grant's total budget. For the six Recovery Act grant recipients we reviewed, personnel costs averaged nearly 38 percent of total grant expenditures. The extent to which these costs are

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<sup>4</sup> This amount excludes \$50 million that may be designated for non-Federal wood to energy grants.

<sup>5</sup> These activities include hazardous fuels reduction, forest health, and ecosystem improvements.

<sup>6</sup> The 8 projects reviewed were part of our statistical sample of 20 projects selected from the 152 non-Federal WFM Recovery Act-funded projects.

allowable under a grant is determined by principles outlined in OMB circulars,<sup>7</sup> which provide requirements that Federal agencies and grant recipients must follow in administering grant funds. OMB A-87 outlines the types of costs State, local, and Tribal governments are allowed to charge to Federal grants. It states that “a cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards.” For example, if an employee spends 40 percent of his time working on a particular grant, 40 percent of his salary should be charged to that grant because it reflects the benefit the grant received. OMB A-87 also requires that salary expense for personnel working on more than one Federal grant, or who are performing both grant-related and non-grant-related work, be supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee. Budgeted estimates or other distribution percentages determined before the services are performed generally do not qualify as support for charges to grants and such costs are not allowable.<sup>8</sup> While OMB A-87 places most of the grant management responsibilities on the recipient, it also requires that Federal agencies issue regulations to implement the provisions of OMB A-87 and its attachments.<sup>9</sup> In addition, OMB Circular No. A-123 (*Management’s Responsibility for Internal Control*) (OMB A-123) requires that Federal agencies take proactive measures to assess the adequacy of internal control for their Federal programs and operations. OMB A-123 also emphasizes the need for agencies to continuously monitor the effectiveness of internal controls through the performance of periodic reviews.

The six grant recipients we reviewed (four State offices, one county office, and one Tribal government) that did not meet OMB’s cost allocation requirements stated that they were unaware of these requirements and therefore did not ensure their financial accounting processes captured the information required to support the salary costs they claimed for reimbursement. Grant recipients charged the salaries of those staff working on FS grants either based on an estimated predetermined percentage rather than the actual time worked on the grant, or they charged the cost entirely to one grant instead of allocating the cost to multiple grants based on the benefits each grant received. The following are four examples illustrating how the six grant recipients did not comply with OMB’s cost allocation requirements.

#### State Office Grant Recipients Not Complying With OMB’s Cost Allocation Requirements

In FS’ Pacific Southwest Region, a State office in California (the grant recipient) received a Recovery Act grant totaling more than \$1.4 million to promote forest health and fire safe communities through the removal of hazardous fuels. The grant recipient charged the salary expense of two full-time foresters (nearly \$210,000 per year) to the Recovery Act-funded grant in order to complete the project. We reviewed the workloads for the two foresters and

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<sup>7</sup> OMB Circular No. A-21 (*Cost Principles for Educational Institutions*), OMB Circular No. A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*), and OMB Circular No. A-122 (*Cost Principles for Non-Profit Organizations*).

<sup>8</sup> There are exceptions to this requirement provided the grant recipient periodically reconciles employees’ actual time worked to the predetermined estimates and makes adjustments accordingly. Also, the grant recipient may use a different system involving statistical sampling with the approval of its cognizant agency. The grant recipients discussed in this report were not using either of these methodologies, or any other allowable methodology, to allocate and track personnel costs charged to the grant.

<sup>9</sup> USDA issued regulations in 7 CFR 3016 which implemented the OMB A-87 requirements.

found that a significant amount of time (30 to 50 percent) was spent performing work unrelated to the grant, yet the entire salary expense of both foresters was charged to the Recovery Act-funded grant. We determined that the State's financial accounting processes captured and charged all personnel costs to the grants that funded the positions, and did not charge the grants based on the actual work performed by the employees that worked on the grants. For example, if a forester position was created for and funded by one grant, then the forester's entire salary would be charged to that grant even if a portion of the forester's time was spent working on other activities unrelated to the grant. The grant recipient stated that its primary focus was on accomplishing the objectives of the grants. Therefore, it did not specifically track the time its employees worked on a grant. The grant recipient believed this was appropriate because its entire staff (both funded and unfunded by the grant) provided equivalent resources, if not more, than originally stipulated in the grant. According to the grant recipient, this was the State's historical practice, and FS had not addressed the issue or specifically discussed with them the documentation requirements of OMB A-87. As of February 2011, FS had reimbursed the grant recipient \$190,626 in unsupported salary costs for the two foresters. Furthermore, the grant recipient currently has 36 additional FS grants with more than \$19.1 million in salary expense that are subject to the same control deficiency.

In another case, a New Mexico State office grant recipient in FS' Southwest Region received more than \$6.5 million in Recovery Act funds for hazardous fuels reduction and ecosystem restoration. The grant recipient ultimately awarded most of the funds to a sub-recipient, but retained about \$325,000 for grant oversight. Three of the grant recipient's employees worked on the Recovery Act-funded grant as well as performed duties unrelated to the Recovery Act-funded grant. In each case, the employees' salary charges were not supported as required by OMB A-87. One employee, who spent up to 40 percent of the time working on the Recovery Act-funded grant, did not charge any salary expense to that grant as required. Instead, the employee's entire salary expense was inappropriately charged to two other Recovery Act-funded grants based on predetermined percentages developed by State personnel. The two other employees correctly tracked and charged actual hours worked to the Recovery Act-funded grant, but incorrectly charged the remainder of their salaries to other FS grants based on predetermined percentages. The State was unaware that its salary allocation method did not comply with OMB's cost allocation requirements. Although OMB A-87 was referenced in the Recovery Act-funded grant, the grant recipient acknowledged it had not reviewed it. According to the grant recipient, it was normal practice to charge salary expenses to all Federal grants based on predetermined percentages, a practice which had not been questioned. Furthermore, FS did not specifically tell the grant recipient that personnel activity reports were required or that personnel time needed to be allocated as worked rather than as budgeted. As of February 2011, FS had reimbursed the grant recipient nearly \$28,000 for salary costs that were unsupported.<sup>10</sup> Furthermore, the grant recipient currently has 11 other existing FS grants with more than \$8.2 million in salary expense that are subject to the same control deficiency.

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<sup>10</sup> The \$28,000 salary expense inappropriately charged to other FS Recovery Act grants is not included in our total unallowable salary expense of \$389,747 because it did not pertain to the Recovery Act-funded grant we statistically selected for review.

### County Office Grant Recipient Not Complying With OMB's Cost Allocation Requirements

In FS' Pacific Southwest Region, a California county office (the grant recipient) received a Recovery Act-funded grant totaling more than \$3 million for hazardous fuels reduction. The grant recipient had also previously been awarded a non-Recovery Act-funded grant from FS for similar work. We found that the grant recipient did not comply with the OMB A-87 requirements when it allocated salary charges to the Recovery Act-funded grant. To simplify its accounting processes, the grant recipient inappropriately designated certain salary costs as always being allocated and charged to the Recovery Act-funded grant and other salary charges as always being allocated and charged to the non-Recovery Act-funded grant regardless of how the costs were incurred. For example, the entire salary of a project supervisor was being charged to the Recovery Act-funded grant even though the supervisor was also working on non-Recovery Act-funded grant projects. The grant recipient knew it was required to separately identify and track Recovery Act-funded expenditures, and thought that designating certain costs to always be charged to the Recovery Act-funded grant met this requirement. The grant recipient was unaware that the grant could only be charged if the work performed directly benefited the grant. While the grant recipient was aware of the OMB circulars cited in its Recovery Act-funded grant, it noted that FS never specifically discussed the OMB cost allocation requirements with it to ensure those requirements were adequately met. As of February 2011, FS had reimbursed the grant recipient \$73,677 for salary costs that were unsupported.<sup>11</sup>

### Tribal Government Grant Recipient Not Complying With OMB's Cost Allocation Requirements

In FS' Southwest Region, a Tribal government in New Mexico (the grant recipient) received a Recovery Act-funded grant totaling almost \$200,000 for hazardous fuels reduction and ecological restoration. The grant recipient was charging salary costs of multiple employees to the Recovery Act-funded grant inappropriately because the charges were based on predetermined percentages rather than the actual hours employees worked on the grant.<sup>12</sup> Although the grant recipient's salary costs were recorded on personnel activity reports, which listed the hours worked and charged to the grant by the employees for each pay period, we determined that these personnel activity reports did not reflect the actual hours the employees worked, but instead reflected predetermined salary allocations. We reviewed the activity reports for eight employees spanning six pay periods and found that employees consistently reported exactly the same number of hours worked on the grant. While the hours listed each day varied, the total number of hours recorded for each pay period was ultimately identical

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<sup>11</sup> During our review of the county office grant recipient, we identified unallowable costs totaling \$88,016. Of that amount, \$73,677 related to unallowable salary charges (discussed in this report) and \$14,339 related to unallowable service and supply charges (not discussed in this report). The grant recipient immediately addressed all of the unallowable charges as soon as we brought them to the county office's attention by removing the unallowable charges from the FS Recovery Act grant and applying the charges to the appropriate accounts.

<sup>12</sup> OMB A-87 allows grant recipients to charge salary expenses to grants using predetermined percentages only if the predetermined percentages are periodically compared and reconciled to the actual hours employees work. The grant recipient discussed above did not track the actual hours employees worked on grants and did not perform any reconciliation between the predetermined percentages charged to the grants and the actual hours employees worked.

and the percentage of salaries charged to the grant remained the same (i.e. 4.87 percent each pay period). When we questioned the grant recipient about the activity reports, they acknowledged that each employee's salary was actually being charged to the Recovery Act-funded grant as well as non-Recovery Act-funded grants, based on predetermined percentages established in the grant recipient's financial accounting system. Therefore, the activity reports were not being used to identify, allocate, or reconcile employees' actual salary expenses. The grant recipient knew that it was supposed to fill out activity reports to support salary charges to the Federal grants, but was unaware that the activity reports were supposed to capture the time employees actually worked on the grants. The grant recipient stated that FS had never specifically explained the documentation requirements in OMB A-87, or the proper way to record and allocate employee salary costs to the grants. As of February 2011, the grant recipient had been reimbursed \$43,131 for salary costs that were unsupported. Furthermore, the grant recipient currently has two other existing FS grants with nearly \$450,000 in salary expense that is subject to the same control deficiency.

The table below summarizes the unsupported salary costs the grant recipients charged for five of the six grants reviewed.<sup>13</sup>

<b>Grant Recipient</b>	<b>Unsupported Salaries Charged to Selected Recovery Act Grants</b>	<b>Unsupported Salaries Charged or Projected to be Charged to Other Recovery Act and Non-Recovery Act Grants<sup>14</sup></b>
State Offices:		
California	\$190,626	\$19,127,875
Georgia	\$82,313	\$215,287
New Mexico	\$0	\$8,275,425
County Office	\$73,677	\$0
Tribal Government	\$43,131	\$449,141
<b>Total</b>	<b>\$389,747</b>	<b>\$28,067,728</b>

FS' pre-award procedures do not ensure that grant recipients' financial accounting systems and processes are sufficient to appropriately allocate personnel costs as required by USDA regulations.<sup>15</sup> The regulations require that State systems must be sufficient to ensure that funds

<sup>13</sup> As was previously noted, we are still in the process of quantifying the amount that the State office in Alabama was reimbursed or projected to be reimbursed for its unsupported salary costs for both its Recovery Act and non-Recovery Act grants.

<sup>14</sup> The \$28 million in unsupported salary costs is an estimate composed of: (1) the budgeted salary expense remaining to be claimed for five of the six FS Recovery Act-funded grants we reviewed, totaling about \$1 million; (2) the salary expenses the six grant recipients claimed or expect to claim for other FS Recovery Act-funded grants we did not review, totaling about \$164,000; and (3) the salary expense the six grant recipients claimed or expect to claim for all other FS non-Recovery Act-funded grants that are currently active, totaling about \$27 million.

<sup>15</sup> Title 7 CFR 3015, *USDA Uniform Federal Assistance Regulations*, August 14, 2000.

have not been used in violation of the grant restrictions, while the systems of other types of grant recipients (e.g. Tribal and non-profits) must be sufficient to ensure that applicable OMB cost principles are followed in determining costs. Under current FS policies, FS certified grant and agreement (G&A) specialists are responsible for evaluating grant applicants' financial accounting systems to ensure grant recipients have adequate accounting policies and procedures (including the ability to track project costs on a grant-per-grant basis), that grant applicants' financial strength and capability are acceptable,<sup>16</sup> and that grant recipient proposals comply with Federal regulations and FS policies. FS' G&A specialists are also responsible for working with both FS' program managers and grant recipients to clarify applicable Federal regulations and FS policies.<sup>17</sup> Current FS policies do not direct G&A specialists to specifically determine that grant recipients have financial systems and processes in place to properly allocate and support salary and other costs charged to grants, or to ensure grant recipients fully understand OMB cost allocation requirements and implement them correctly.

For the six grant recipients we reviewed that did not meet OMB's cost allocation requirements, we are recommending FS recover from the grant recipients the \$389,747 in unsupported salary costs already charged to the six FS Recovery Act-funded grants reviewed. We are also recommending FS identify and recover from the six grant recipients the portion of the \$28 million in unsupported salary costs already charged to their other FS Recovery Act and non-Recovery Act-funded grants still active. In addition, we are recommending FS postpone further salary reimbursements to the six grant recipients we reviewed with unsupported salary costs as well as those grant recipients unable to timely certify to FS their compliance with the OMB cost allocation requirements.<sup>18</sup> For those grant recipients unable to timely certify to FS their compliance with OMB's cost allocation requirements, we are recommending FS staff review all of the grant recipients' Recovery Act and non-Recovery Act-funded grants still active to determine whether salary costs were appropriately charged to the grants in compliance with OMB's cost allocation requirements. In those instances where FS determines the salary costs charged to the grants were not adequately supported, we are recommending FS disallow the costs and recover any reimbursements already made to the grant recipients. For all other grant recipients, we are recommending that FS staff perform periodic reviews to spot check the grant recipients' supporting documentation for their salary costs charged to the grants to verify their claims for reimbursement were allowable under the grant agreements, that they met applicable OMB cost allocation requirements, and that they were accurately reported to FS. To accomplish the reviews in the most cost efficient manner possible, FS should use a risk-based approach when selecting the grant recipients for review that considers factors such as the size of the grant and the grant recipient's track record in complying with the terms of its grants.

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<sup>16</sup> Forest Service Handbook 1509.11, Chapter 20, Section 23.52, October 20, 2009.

<sup>17</sup> Forest Service Manual 1500, Chapter 1580.41f, October 20, 2009.

<sup>18</sup> Title 7 CFR 3016.43, *Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments*, January 1, 2010, states that if a grantee or sub-grantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, State plan or application, notice of award, or elsewhere, the awarding agency can temporarily withhold cash payments pending correction of the deficiency by the grantee or sub-grantee.

To ensure grant recipients accurately account for and properly allocate their salary costs on all future grants, we are recommending that FS require grant recipients to describe in their grant applications their financial accounting processes used for allocating and supporting their costs charged to the grants, and that FS' G&A specialists review the grant applications to ensure that the grant applicants are able to meet OMB's cost allocation requirements before awarding the grants. We are also recommending FS provide its G&A specialists with the appropriate training enabling them to properly assess grant recipients' financial accounting processes and to ensure grant recipients' ability to meet OMB's cost allocation requirements. To ensure grant recipients are fully aware of the OMB cost allocation requirements, we are also recommending FS staff conduct pre-award meetings with the grant recipients to discuss the required documentation needed to support their salary costs charged to the grants.

We discussed our concerns with FS officials on March 16, 2011, in which they generally agreed with our finding and recommendations. In a follow-up meeting with FS officials on April 21, 2011, the Director for State and Private Forestry informed us that they had confirmed with their staff in the field that the problem we reported was prevalent throughout the country and that they were in the process of taking immediate actions to address the problem. For example, the Director stated that FS would immediately notify all grant recipients of the problems found during the OIG audit and require that all grant recipients certify to FS their compliance with OMB's cost allocation requirements. FS would also offer the grant recipients additional training to ensure that they fully understand OMB's cost allocation requirements. The Director also stated that FS would perform periodic reviews to spot check the grant recipients' supporting documentation for their salary costs charged to the grants to verify that their claims for reimbursement were allowable under the grant agreement, that they met applicable OMB cost allocation requirements, and that they were accurately reported to FS. The Director also stated that FS would use a risk-based approach to select the grant recipients to review and that they may hire an outside accounting firm to conduct the reviews.

**Recommendations:**

1. Recover from the six grant recipients the \$389,747 in unsupported salary costs already charged to the six FS Recovery Act grants reviewed.
2. Identify and recover from the six grant recipients the portion of the \$28 million in unsupported salary costs already charged to the other FS Recovery Act and non-Recovery Act-funded grants still active.
3. Postpone further salary reimbursements to all grant recipients with unsupported salary costs in Recommendations 1 and 2 and those unable to timely certify their compliance with OMB cost allocation requirements until FS has the necessary assurances and documentation from the grant recipients that they are able to fully comply with OMB's cost allocation requirements.
4. For those grant recipients unable to timely certify to FS their compliance with OMB's cost allocation requirements, require FS staff to review all of the grant recipient's



Recovery Act and non-Recovery Act-funded grants still active to determine whether salary costs were appropriately charged to the grants in compliance with OMB's cost allocation requirements.

5. In those instances where FS determines the salary costs charged to the grants were not adequately supported, disallow the costs and recover any reimbursements already made to the grant recipients.
6. For all other grant recipients, require FS staff to perform periodic reviews to spot check the grant recipients' supporting documentation for their salary costs charged to the grants to verify their claims for reimbursement were allowable under the grant agreements, that they met applicable OMB cost allocation requirements, and that they were accurately reported to FS. To accomplish the reviews in the most cost efficient manner possible, FS should use a risk-based approach when selecting the grant recipients to review that considers factors such as the size of the grant and the grant recipient's track record in complying with the terms of its grants.
7. For all future grants, require grant recipients to describe in their grant applications their financial accounting processes used for allocating and supporting their costs charged to the grants and require that FS' G&A specialists review the grant applications to ensure that the grant applicants are able to meet OMB's cost allocation requirements before awarding the grant.
8. Provide FS' G&A specialists with the appropriate training enabling them to properly assess grant recipients' financial accounting processes and to ensure grant recipients' ability to meet OMB's cost allocation requirements.
9. Require FS staff to conduct pre-award meetings with the grant recipients to discuss the required documentation needed to support their salary costs charged to the grants and to ensure grant recipients are fully aware of the OMB cost allocation requirements.

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

cc:

Jennifer McGuire, Director of Audit and Assurance, Forest Service  
Linda Smith, Supervisory Accountant, Forest Service  
Dianna Capshaw, Supervisory Accountant, Forest Service  
Erica Banegas, Branch Chief, Forest Service  
Sandy Coleman, Branch Chief, Forest Service  
Janet Roder, OIG Audit Liaison, Forest Service

**USDA'S**

**FOREST SERVICE'S**

**RESPONSE TO AUDIT REPORT**



**File Code:** 1430

**Date:** May 18, 2011

**Route To:**

**Subject:** Response to Audit Report No. 08703-5-SF (6) "Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed Were Unsupported – The Recovery Act – Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (6)"

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

This letter is in response to Audit Report No. 08703-5-SF (6) "Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed Were Unsupported – The Recovery Act – Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (6)" received on May 5, 2011 from the US Department of Agriculture Office of the Inspector General. We appreciate the opportunity to respond to the referenced report. The response for each recommendation follows:

**OIG Recommendation #1:** Recover from the six grant recipients the \$389,747 in unsupported salary costs already charged to the six FS Recovery Act grants reviewed.

**Forest Service Response:** The FS has not had an opportunity to review the grants mentioned in the subject OIG report. The agency will conduct research to identify the grants in question and perform a review, and if any issues are identified, the agency will manage them as applicable by OMB Circulars and federal cost accounting principles. These actions will be complete by December 31, 2011.

**OIG Recommendation #2:** Identify and recover from the six grant recipients the portion of the \$28 million in unsupported salary costs already charged to the other FS Recovery Act and non-Recovery Act-funded grants still active.

**Forest Service Response:** The FS has not had an opportunity to review the grant recipients mentioned in the subject OIG report or the estimated \$28 million in unsupported salary costs. FS will conduct a review of the grant recipients, and if any issues are identified, the agency will manage them as applicable by OMB Circulars and federal cost accounting principles. These actions will be complete by December 31, 2011.

**OIG Recommendation #3:** Postpone further salary reimbursements to all grant recipients with unsupported salary costs in Recommendations 1 and 2 and those unable to timely certify their compliance with OMB cost allocation requirements until FS has the necessary assurances and documentation from the grant recipients that they are able to fully comply with OMB's cost allocation requirements.



**Forest Service Response:** The FS has not had an opportunity to review the grants or grant recipients mentioned in Recommendations 1 and 2. FS will conduct a review, and if any issues are identified, the agency will manage them as applicable by OMB Circulars and federal cost accounting principles. These actions will be complete by December 31, 2011.

**OIG Recommendation #4:** For those grant recipients unable to timely certify to FS their compliance with OMB's cost allocation requirements, require FS staff to review all of the grant recipient's Recovery Act and non-Recovery Act-funded grants still active to determine whether salary costs were appropriately charged to the grants in compliance with OMB's cost allocation requirements.

**Forest Service Response:** Based on the results of the reviews conducted by the FS, referenced in Recommendation 3, the agency will take appropriate action as applicable by OMB Circulars and federal cost accounting principles. These actions will be complete by December 31, 2011.

**OIG Recommendation #5:** In those instances where FS determines the salary costs charged to the grants were not adequately supported, disallow the costs and recover any reimbursements already made to the grant recipients.

**Forest Service Response:** If the agency finds unsupported salary costs resulting from our review, those costs will be disallowed and recovered accordingly. These actions will be complete by December 31, 2011.

**OIG Recommendation #6:** For all other grant recipients, require FS staff to perform periodic reviews to spot check the grant recipients' supporting documentation for their salary costs charged to the grants to verify their claims for reimbursement were allowable under the grant agreements, that they met applicable OMB cost allocation requirements, and that they were accurately reported to FS. To accomplish the reviews in the most cost efficient manner possible, FS should use a risk-based approach when selecting the grant recipients to review that considers factors such as the size of the grant and the grant recipient's track record in complying with the terms of its grants.

**Forest Service Response:** If the agency determines the issues identified in this report are valid, FS will develop a risk based approach for conducting periodic reviews on grant recipients supporting documentation of their salary costs. These actions will be complete by December 31, 2011.

**OIG Recommendation #7:** For all future grants, require grant recipients to describe in their grant applications their financial accounting processes used for allocating and supporting their costs charged to the grants and require that FS' Grants and Agreements (G&A) specialists review the grant applications to ensure that the grant applicants are able to meet OMB's cost allocation requirements before awarding the grant.

**Forest Service Response:** The OMB cost allocation requirement is upon the recipient to ensure they have financial accounting procedures in place. However, the agency will advise potential recipients that supporting documentation of their financial accounting processes must be available upon request.

**OIG Recommendation #8:** Provide FS' G&A Specialists with the appropriate training enabling them to properly assess grant recipients' financial accounting processes and to ensure grant recipients' ability to meet OMB's cost allocation requirements.

**Forest Service Response:** Based on the results of the reviews conducted by the FS, the agency will take appropriate action to ensure G&A Specialists and Program Managers are trained on applicable OMB Circular requirements and understand how to recognize proper methodologies for documenting expenditures under federal awards. These actions will be complete by December 31, 2011.

**OIG Recommendation #9:** Require FS staff to conduct pre-award meetings with the grant recipients to discuss the required documentation needed to support their salary costs charged to the grants and to ensure grant recipients are fully aware of the OMB cost allocation requirements.

**Forest Service Response:** Based on the results of the reviews conducted by the FS, the agency will take appropriate action as applicable per OMB Circular requirements.

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

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