



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



DATE: April 2, 2010

REPLY TO
ATTN OF: 08703-01-SF

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Donna M. Carmical
Chief Financial Officer
Forest Service

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

SUBJECT: Recovery Act – Forest Service (FS) Wood-to-Energy Projects (2)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included \$1.15 billion in funds for the 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 Act. To accomplish this, the Office of Management and Budget (OMB) issued guidance in February 2009 that requires Federal agencies to establish internal controls, oversight mechanisms, and other approaches to meet the Recovery Act's accountability objectives. The director of FS' Acquisition Management is responsible for implementing processes to ensure the agency complies with the Recovery Act and OMB's related guidance. In general, the Recovery Act requires United States Department of Agriculture's Office of Inspector General 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 authorized \$500 million for Wildland Fire Management, of which up to \$50 million was made available for wood-to-energy grants. These grants promote increased utilization of biomass¹ for energy products from Federal, State, and private lands. As of June 2009, FS awarded \$49 million in Recovery Act funds for 23 wood-to-energy grants. FS Pacific Southwest Region, located in Vallejo, California, is responsible for the administration of one grant totaling \$4.5 million.

On February 1, 2010, we initiated a review of the \$4.5 million grant. The grant was used to fund two wood-to-energy projects and to help re-open two previously closed biomass power plants.

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

[Grant Recipient A], located in [city name], California, was allocated \$2 million, and [Grant Recipient B], located in [city name], California, was allocated \$2.5 million. The objective of our review was to determine whether [Grant Recipient A] and [Grant Recipient B] complied with applicable laws and regulations pertaining to the Recovery Act. We did not identify any issues with [Grant Recipient A]; however, we found that [Grant Recipient B] submitted inaccurate requests for reimbursements. As a result, FS provided excess reimbursements of more than \$1.2 million to [Grant Recipient B]. This issue, along with any others identified through our fieldwork, will be compiled into a final report at the conclusion of our audit. [Grant Recipient B] submitted two separate requests for reimbursement that did not reflect its actual expenditures. [Grant Recipient B] had only expended \$160,882; however, it requested a total of \$1.4 million for reimbursement. This occurred because [Grant Recipient B] officials believed that the FS grant agreement provided them the authority to request the entire amount that they were contractually obligated to pay. As a result, [Grant Recipient B] received an excessive reimbursement of \$1,248,997, deposited into their general business account. According to the FS grant agreement, requests for payments should be based on the actual cash disbursements for goods and services. Also, according to the Code of Federal Regulations (CFR), Federal agencies cannot use the percentage of completion method to pay construction grants. The awarding agency's payments to the grantee or subgrantee should be based on the actual rate a grantee or subgrantee disburses funds.² However, we found that [Grant Recipient B] claimed reimbursements for amounts that did not reflect actual expenditures.

On December 4, 2009, [Grant Recipient B] requested reimbursement of \$948,379 for two truck/trailer dumpers when, in fact, [Grant Recipient B] had only paid \$94,838 or 10 percent of the purchase price. A “dumper” is specialized equipment with a towable, elongated frame designed to raise and lower the truck/trailer so that its contents can be dumped. According to the purchase order, dated November 17, 2009, payment in full was not due to the vendor until March 22, 2010. [Grant Recipient B] received an excess reimbursement of \$853,541. On March 31, 2010, FS' Program Manager stated that the grantee explained that these funds have been expended.

On December 18, 2009, [Grant Recipient B] submitted a second request for reimbursement for \$461,500. [Grant Recipient B] informed FS that funds would be used for maintenance of existing equipment, and the purchase of a distributed control system (i.e. the computer system used within a project to communicate the performance and detect potential problems of all pumps, motors, fans, etc. to the project operator). Although [Grant Recipient B] requested \$461,500, it had outlays of only \$66,044. [Grant Recipient B] received an excess reimbursement of \$395,456. FS' Program Manger informed us on March 31, 2010, that the grantee stated that these funds have been expended.

According to a representative of [Grant Recipient B], they believed that the grant agreement permitted them to request what they were contractually obligated to pay. [Grant Recipient B] believed that it implemented best practices by only paying partial balances of the contracts to ensure vendors met key milestones. Subsequent to our review, [Grant Recipient B] confirmed

² 7 CFR 3016.21 (d) dated March 1988

with the FS that they had in fact misinterpreted the grant agreement and would submit its future payment requests when actual funds are expended.

FS' Program Manager at the Pacific Southwest Region stated that [Grant Recipient B] should have filed a request for an advance rather than a reimbursement since they were relying on milestones to disburse funds to the vendor. In addition, he acknowledged that FS officials responsible for the [Grant Recipient B] grant should have identified the problem, but failed to do so because the request for these funds was part of an amendment to the grant agreement. In our opinion, this does not alleviate FS' responsibility to review payment requests to ensure funds are being used for the intended purpose. Also, FS' Program Manager stated that FS will closely monitor future requests and require [Grant Recipient B] to submit documentation to support future disbursements. FS agreed to collect from [Grant Recipient B] any interest accrued on Recovery Act funds.

We recommend that FS (1) obtain documentation from [Grant Recipient B] to ensure the excess reimbursement of \$1,248,997 had been expended; (2) closely monitor future requests from [Grant Recipient B]; and (3) calculate and recover the interest on the excess reimbursement.

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'S

RESPONSE TO AUDIT REPORT



File Code: 1430-1

Date: April 23, 2010

Route To:

Subject: Response to Recovery Act Forest Service (FS) Wood-to-Energy Projects (2) - OIG Report # 08703-0001-SF

To: Tracy LaPoint, Acting Assistant Inspector General For Audit

The Forest Service has reviewed the Office of the Inspector General (OIG) Audit Report No. 08703-0001-SF, "Recovery Act Forest Service (FS) Wood-to-Energy Projects (2)" dated April 2, 2010. The Agency appreciates OIG's review of the American Recovery and Reinvestment Act (ARRA) program and Wood-to-Energy projects activities. The OIG report cites that \$1.2 million in excess reimbursements were paid to [Grant Recipient B (GRB)] for a wood-to-energy project under grant No. [redacted].

The Forest Service generally concurs with the audit recommendations and is implementing the following corrective actions:

OIG Recommendation 1:

We recommend that FS obtain documentation from [GRB] to ensure the excess reimbursement of \$1,248,997 had been expended.

FS Response:

The FS has obtained documentation, including dates, vendor, amount and [GRB] check numbers of all payments from November 23, 2009 through March 31, 2010, substantiating 100 percent liquidation of excess reimbursement, with actual expenditures currently exceeding \$1.4 million.

OIG Recommendation 2:

We recommend that FS closely monitor future requests from [GRB].

FS Response:

The Program Manager agrees to closely monitor progress and conduct a detailed review of future requests from [GRB].

OIG Recommendation 3:

We recommend that FS calculate and recover the interest on the excess reimbursement.

FS Response:

The FS will recover interest on excess reimbursement in accordance with agency policy and OMB guidance to ensure the Recovery Act's accountability objectives are achieved.



If you have any questions, please contact me at 202- 205-1321 or dcarmical@fs.fed.us.

/s/ Jennifer McGuire (for)
DONNA M. CARMICAL
Chief Financial Officer

cc: Dave Dillard
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