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

DATE: December 30, 2010

AUDIT NUMBER: 08703-4-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: Gila National Forest, New Mexico-Questionable Costs—Recovery Act- Forest Service Trail Maintenance and Decommissioning (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 missions 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 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.

FS allocated $100 million of the Recovery Act funds to FS' Capital Improvement and Maintenance Program for trail maintenance and decommissioning in the National Forest System. The Gila National Forest awarded two participating agreements[1] for an estimated $643,000 to a

[1] A participating agreement allows FS to partner with public and private organizations to cooperatively perform mutually beneficial projects.

regional non-profit organization[2] (NPO) in Silver City, New Mexico. Approximately $370,000 was allocated for a 185 mile trail maintenance project and $273,000 for a 145 mile trail maintenance project.

As part of USDA OIG's continuing oversight of FS' Recovery Act activities, we randomly selected the 185 mile trail project for review. We expanded our review to include the 145 mile trail project because the NPO allocated labor and supply costs to both projects. We visited the Southwest Economic Recovery Operation Center (EROC)[3] in Vallejo, California, and Gila National Forest in Silver City, New Mexico, to review the agreement files, interview key FS staff responsible for the projects, and inspect the work sites. In addition, we visited the NPO to review relevant accounting records and evaluate its accounting system. During our visits, we determined that the NPO charged FS about $24,700 in questionable costs (approximately eight percent of total expenditures) from September 2009 to April 2010. This issue, along with any others identified, will be compiled into a final report at the conclusion of our audit.

Trail Funds Used for Office Improvement

The NPO improperly spent about $17,000 of trail project funds to improve its new office. During the budget negotiation process between FS and the NPO, both parties did not clearly communicate who had financial responsibility for the NPO's office improvements. Specifically, they did not develop a comprehensive financial plan[4] that identified each cost element for the projects. As a result, the NPO assumed that Recovery Act trail funds could be used to pay for its office improvements.

OMB[5] 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…."

We reviewed documentation for $306,112 in reimbursements and found that the NPO spent about $17,000 on office improvements. Expenditures included labor and materials, such as wire, lumber, dry wall, custom glass, cabinets, drawers, etc. The office improvements were not specified in the financial plan of either trail project. The NPO was also unable to provide any documentation that the office improvements were approved by FS.

According to the NPO executive director, it was his understanding that FS would help the NPO pay for the improvements to a larger office, so that they could expand operation and "build capacity" for the two trail projects.

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[2] This regional non-profit organization serves communities and local organizations in Southwest New Mexico. It began focusing on the youth conservation corps between 2004 and 2005, and has worked with Gila National Forest on several small-scale trail maintenance projects.

[3] FS established four EROCs across the country: Southwest EROC in Vallejo, California; Northwest EROC in Portland, Oregon; Intermountain EROC in Denver, Colorado; and East EROC in Atlanta, Georgia. The EROCs are responsible for executing and managing the contracts, grants, and agreements under the Recovery Act.

[4] The 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.

[5] OMB Circular No. A-122, *Costs Principles for Non-Profit Organizations,* Attachment B 15 2(3) and 15 2(5), revised May 10, 2004.

The FS program manager was aware of the NPO's move to a new office; however, he interpreted "building capacity" as equipping the trail crews with sufficient gear. He approved the NPO's payment without requesting detailed support for the expenditures because Gila National Forest had partnered with the NPO in prior trail projects. He told us that he would not have approved the payments if he had known that the NPO charged FS for the office improvements.

Inadequate Accounting Controls at the NPO

In addition to the improvements to the office, the NPO charged FS $7,699 in other questionable expenses for the two trail projects. This occurred because FS did not ensure that the NPO established effective internal control over its accounting system after awarding the two trail projects. As a result, FS does not have assurance that project funds were accurately reported by the NPO and used for the intended purposes.

OMB[6] requires Federal awarding agencies to ensure that the cooperator's financial management systems "provide effective controls over accountability for all funds" as well as the "written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and terms and conditions of the award."

The NPO had established general financial policies and procedures, but it lacked specific and effective internal controls over its accounting system to address purchases, payment of invoices, and cost allocation. For example:

- The NPO did not establish written procedures to determine whether costs incurred were, in fact, allowable costs. We found that some purchase requests did not identify the project or program associated with the purchase. We also found instances where unrelated purchases for two trail projects were coded as project expenses. Furthermore, when non-Recovery Act-funded purchases were reclassified as Recovery Act-funded expenditures, there was insufficient evidence to support the reclassification. As a result, $4,004 for travel and food expenses unrelated to the Recovery Act-funded trail projects was charged to one project; and $2,223 for office supplies, including a vacuum cleaner and a carpet-cleaning machine, was charged to the other project.

- The NPO had inadequate invoice processing procedures that resulted in double entries in the accounting system. The NPO did not always include an invoice number to track its expenditures in the accounting system. Because this unique invoice number was omitted, the system could not detect double accounting entries when expenditures were entered twice. An administrative assistant recently hired by the NPO reconciled the expenditures prior to our visit. Although she found and adjusted approximately $13,000 in double accounting errors on a payment request to FS, we found additional errors, totaling $159. To reduce such errors, the NPO needs to change its accounting practice by entering a unique invoice number in the accounting system.

[6] OMB Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements,* Subpart C (b), amended September 30, 1999.

- The NPO did not establish an allocation method for expenses shared between Recovery Act and non-Recovery Act-funded projects. For example, $1,313 of insurance premiums for two NPO-owned passenger vehicles were charged to FS Recovery Act-funded trail projects, even though the vehicles were used by multiple programs.

- In addition, the NPO's method to allocate salaries for its Recovery Act-funded trail crews was inconsistent and unsupported. The NPO assigned three trail crews to work on the two Recovery Act-funded projects. We did not question the total crew salaries charged to FS because the crews only worked on Recovery Act-funded projects. However, we questioned the NPO's methodology to allocate the crew salaries between the two projects because each project has its own budget. The NPO could not provide us a reasonable basis for its allocation. We also found instances where salaries from one project were transferred to another project without adequate support.

We expressed our concerns to the Executive Director of the NPO. He agreed to improve their accounting controls to ensure that only project-related costs would be charged to the Recovery Act-funded projects.

We also discussed the above issues with personnel from both the Gila National Forest and the Southwest EROC. They agreed that they would review the questioned costs and recover from the NPO all unallowable costs. In addition, the Gila National Forest has taken steps to correct the problems by requesting itemized invoices, along with supporting documentation, and has worked with the Southwest EROC to revise the financial plan for both Recovery Act-funded trail projects.

We recommend that the Gila National Forest (1) recover from the NPO any reimbursements that are determined to be unallowable; (2) work with the NPO to revise the financial plans to specify each cost element and ensure they reflect the actual expenses incurred for the projects; and (3) ensure that the NPO establishes effective controls so that costs charged to the funds are allowable and accurate.

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.

cc:
Jennifer McGuire, Director of Audit and Assurance, Forest Service
Dianna Capshaw, Internal Quality Assurance, Forest Service
Sandy Coleman, Branch Chief, Forest Service
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USDA'S

FOREST SERVICE

RESPONSE TO AUDIT REPORT

Forest Service | Washington Office | 1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430 **Date:** January 5, 2011

Subject: Response to Audit Report No. 08703-4-SF (2) Gila National Forest, New Mexico – Questionable Costs – Recovery Act-Forest Service Trail Maintenance and Decommissioning (2)

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

This letter is in response to the Audit Report No. 08703-4-SF (2) Gila National Forest, New Mexico – Questionable Costs – Recovery Act-Forest Service Trail Maintenance and Decommissioning (2) dated December 30, 2010, from the US Department of Agriculture Office of the Inspector General. The response for each recommendation follows:

OIG Recommendation #1: Recover from the NPO any reimbursements that are determined to be unallowable:

Forest Service Response: FS concurs with the recommendation. The FS identified the items they considered unallowable, which totaled $17,872.79. On August 19, 2010, a Bill of Collection was issued to The Wellness Coalition (TWC) and on October 8, 2010, the bill was paid in full.

OIG Recommendation #2: Work with the NPO to revise the financial plans to specify each cost element and ensure they reflect the actual expenses incurred for the projects.

Forest Service Response: FS concurs with the recommendation. The Forest executed new Financial Plans for each agreement that are very specific to cost elements and geared toward actual expenditures. These were completed by July 30, 2010.

OIG Recommendation #3: Ensure that the NPO establishes effective controls so that costs charged to the funds are allowable and accurate.

Forest Service Response: FS concurs with the recommendation. The Program Manager has enhanced internal controls to review supporting documentation prior to approving payments in order to ensure that costs are allowable, accurate and in compliance with FS guidance.

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