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

DATE: June 2, 2011

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

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Donna M. Carmical
Chief Financial Officer

FROM: Gil H. Harden /s/ *Rod DeSmet (for)*
Assistant Inspector General
for Audit

SUBJECT: Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act – The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (5)

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 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

[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.

USDA's 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 million[4] for FS to implement Wildland Fire Management (WFM) activities[5] on State, county, and private lands. From May through September 2009, FS' Washington Office approved 152 WFM projects on non-Federal lands. FS field staff at the Regional and National Forest levels 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 grant proposals to FS describing the anticipated project work and its estimated cost. We reviewed 5 of the 152 non-Federal WFM Recovery Act-funded projects, consisting of 7 grants, valued at $23.9 million, to determine whether the projects were being timely completed in compliance with Recovery Act requirements.[6] The seven grants were all made to grant recipients within the FS' Pacific Southwest (Region 5) and Southern Regions (Region 8).

Our review of the seven non-Federal WFM Recovery Act-funded grants found that three of the grant recipients were not effectively using the grant funds they received to create or sustain the most jobs possible, as intended by the Recovery Act. Although the grants funded project work that met natural resource objectives, they did not meet the Recovery Act's economic stimulus objectives because the grant recipients continued to conduct the same amount of work they were already performing before they received the Recovery Act funds. More specifically, one of the grant recipients was postponing the start of its Recovery Act-funded projects until it completed its non-Recovery Act work, while another grant recipient postponed the completion of its non-Recovery Act work to start work on its Recovery Act-funded projects. The remaining grant recipient was replacing the non-Recovery Act funds it already had allocated to its previously funded projects with the newly received Recovery Act funds. In each of these cases, the grant recipient did not create additional jobs because no new employees were hired. The grant recipients also did not maintain any jobs at risk of being lost because they had sufficient non-Recovery Act grant funds to keep current personnel fully employed. FS staff did not specifically inform those receiving Recovery Act grants that they were expected to complete their Recovery Act-funded projects, along with other project work already in process, in order to meet the economic stimulus intent of the Recovery Act. FS staff assumed that the grant recipients understood that Recovery Act project work should be done concurrently with grant recipients' other work already in process in order to create the additional jobs needed to stimulate the economy. Due to FS' lack of specific guidance, the grant recipients did not take the actions needed to meet the economic stimulus intent of the Recovery Act.

[4] From March through September 2009, 152 non-Federal WFM projects, totaling $214 million, were approved for Recovery Act funding. 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 five projects reviewed were part of our statistical sample of 20 projects selected from the 152 non-Federal WFM Recovery Act-funded projects.

This report is one in a series of reports pertaining to Recovery Act-funded grants to non-Federal entities. 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. The issues discussed below, along with any others identified, will be compiled into a final report at the conclusion of our audit.

One of the Recovery Act's primary purposes was to preserve and create jobs and promote economic recovery by commencing Recovery Act-funded activities and expenditures as quickly as possible.[7] In implementing the Recovery Act, Federal agencies were directed to create policies and procedures to ensure Recovery Act funds were expended for projects that had, to the greatest extent, a demonstrated ability to stimulate the economy by maximizing the number of jobs created in relation to the Federal dollars spent.[8] The Recovery Act Conference Committee report [9] encouraged FS and other agencies to select individual projects based on a prioritization process which weighed the capacity of proposals to create the largest number of jobs in the shortest period of time. OMB also directed agencies to develop transparent, merit-based selection criteria that awarded Recovery Act funds to grant recipients with a demonstrated ability to achieve economic stimulus by optimizing economic activity, the number of jobs created, and programmatic results.

In response to the above direction, FS developed Recovery Act non-Federal WFM grant award procedures that reflected the OMB requirements and the Recovery Act's objectives. FS notified the public of the availability of Recovery Act funds and that grants would be awarded to project proposals that created the largest number of jobs in the shortest period of time and created lasting value for the American public.[10] FS' Washington Office further informed field staff in an internal memorandum that Recovery Act funding was to be used to fund projects that would quickly create and retain jobs to aid the weakened economy and that the projects had to be outside of already funded work because simply replacing the funds already designated for non-Recovery Act projects with Recovery Act funds would do nothing to stimulate the economy.

Since the Recovery Act required Federal funds to be put to work as quickly as possible, in many cases, Federal agencies, including FS, awarded Recovery Act funds to existing grant recipients

---

[7] The American Recovery and Reinvestment Act of 2009, Section 3(a), Statement of Purposes: (1) "To preserve and create jobs and promote economic recovery;" and Section 3(b), General Principles Concerning the Use of Funds: "The President and the heads of Federal departments and agencies shall manage and expend the funds made available in this Act so as to achieve the purposes specified in subsection (a), including commencing expenditures and activities as quickly as possible consistent with prudent management."

[8] White House Memorandum for the Heads of Executive Departments and Agencies, "*Ensuring Responsible Spending of Recovery Act Funds*," March 20, 2009

[9] A conference committee is a temporary panel of House and Senate negotiators created to resolve differences between versions of similar House and Senate bills, and is usually composed of the senior members of the standing committees of each House that originally considered the legislation. Reports and statements issued by a conference committee are considered one of the best sources of legislative history on a bill.

[10] FS' WFM Recovery Act grant application and proposal submission instructions, as published in the Catalog of Federal Domestic Assistance, Program Number 10.688.

they were familiar with, rather than awarding Recovery Act funds to new applicants.[11] For example, even though FS announced the availability of non-Federal WFM Recovery Act funds in the Catalog of Federal Domestic Assistance, during our review we determined that FS did not actually award non-Federal WFM Recovery Act grant proposals through that venue. Nearly all of the 171 non-Federal WFM Recovery Act funded grants FS awarded went to States, counties, Tribal governments, and non-profit organizations who were already the recipients of non-Recovery Act funded FS grants. FS justified awarding Recovery Act funds to existing grant recipients on the basis that such awards could be implemented immediately and that Recovery Act funds would be used as quickly as possible to create new jobs or save existing ones.

Most of the grant recipients who received FS non-Federal WFM Recovery Act grants were already engaged in non-Recovery Act-funded work. Consequently, the only way the existing grant recipients could meet the Recovery Act's objective of creating new jobs or retaining jobs at risk of being lost was if they continued to perform both their non-Recovery Act-funded project work already started, concurrently with their Recovery Act-funded project work. Stopping the work on their non-Recovery Act projects to start work on their Recovery Act projects would likely not create any new jobs, particularly if the same staff were used to complete both projects. Grant recipients who lacked the ability to perform projects concurrently would not meet FS' grant award requirements of funding non-Federal WFM Recovery Act projects that created or retained the greatest number of jobs in the shortest amount of time.

The following details our findings for the three grant recipients reviewed that were not meeting the economic stimulus intent of the Recovery Act.

**Grant Recipients Delayed Recovery Act-Funded Work To Complete Non-Recovery Act-Funded Work –** In FS' Pacific Southwest Region, a county office in California (the grant recipient) delayed the start of the Recovery Act-funded work in order to first expend the non-Recovery Act grant funds previously received. In July 2009, the grant recipient received over $3 million in Recovery Act funds. At the time of the award, the grant recipient had also previously received over $33 million in other Federal awards and was engaged in performing that project work. The grant recipient's Recovery Act project had been approved by FS' Washington Office as one that could be immediately implemented, and was therefore expected to begin within days of the award. However, we determined that the grant recipient had still not begun the Recovery Act project work 8 months after receiving its Recovery Act award. FS staff were unaware of recipient's lack of Recovery Act spending because they had not been monitoring the recipient's project activities. When we questioned the grant recipient about the lack of progress on the project, the grant recipient told us it placed a higher priority on completing the non-Recovery Act projects because those grant funds were due to expire. The grant recipient, therefore, chose to delay work on the Recovery Act-funded project until the non-Recovery Act grant funds were completely spent. The grant recipient further stated that

[11] Center on Budget and Policy Priorities, September 23, 2009.

FS never communicated any specific direction requiring the immediate initiation of the Recovery Act work. The FS grant only specified that the recipient was required to use Recovery Act funds to complete projects or activities. As a result, 8 months after receiving its non-Federal WFM Recovery Act funds, the grant recipient had taken no actions to stimulate the economy, since it had not used the Recovery Act funds to create any new jobs and none of its existing jobs were in jeopardy of being lost. Following our review, the grant recipient immediately initiated work on the Recovery Act project and expressed its intention of hiring additional employees to perform this work simultaneously with its other non-Recovery Act-grant projects.

**Grant Recipient Delayed Non-Recovery Act-Funded Work To Complete Recovery Act-Funded Work –** In FS' Pacific Southwest Region, a non-profit organization in California (the grant recipient) received a Recovery Act grant, totaling about $4 million, in August 2009. The FS Recovery Act grant stated that the purpose of the Recovery Act was to put Americans back to work and rejuvenate the nation's economy. However, the FS grant did not require the grant recipient to use the Recovery Act grant funds it received to create new jobs. The grant only stated that the grant recipient was required to complete projects or activities using the Recovery Act funds. At the time of the award, the grant recipient was also engaged in non-Recovery Act project work, funded by three previously awarded FS non-Recovery Act grants, totaling about $13 million. Upon receipt of its Recovery Act grant, the grant recipient did not have the ability to simultaneously perform both the Recovery Act-funded and non-Recovery Act-funded project work and, therefore, elected to halt work on one of its previously awarded non-Recovery Act FS grants "in order to absorb the Recovery Act funding." The grant recipient's decision to delay the other grant work in order to timely spend its Recovery Act dollars did not meet the economic stimulus intent of the Act. Because the grant recipient planned to annually accomplish the same amount of work that it would have accomplished without the Recovery Act funds, it was essentially substituting one funding source for another, which did nothing to stimulate the economy (i.e., no new jobs were created and none were in jeopardy of being lost, since the grant recipient would have continued to employ the same number of staff, even if it had not received the Recovery Act funds.)

At the time of the grant award, FS staff asked the grant recipient if the recipient could use Recovery Act funds to complete project work and the recipient told the FS it could use the additional funding. The grant recipient informed us that it did not realize it was expected to simultaneously perform both the Recovery Act-funded and non-Recovery Act-funded work because FS staff did not communicate that expectation. The grant recipient further stated that, although it had elected to defer the other grant work to "absorb" the Recovery Act funding, it could concurrently accomplish all of the FS-funded work (both Recovery Act and non-Recovery Act), if required to do so. We disagree with the grant recipient's belief in this regard. We reviewed the grant recipient's productivity records and concluded that it lacked the ability to concurrently perform both the Recovery Act and non-Recovery Act-funded grant work.[12] Project work authorized under the grant recipient's Recovery Act and non-Recovery Act grants required it to complete 4,745 on-the-ground projects by July 2013, or more than 900 projects per year. However, in its 5-year operating history, the grant recipient had never executed more than 535 projects in any given year, and typically only completed about 310 projects annually. To accomplish the required 900 projects per year would require the grant recipient to increase its productivity level by about 200 percent. A 200 percent increase in project accomplishments would be difficult to achieve because the grant recipient's project work depends on public interest in the program; members of the public must call in and request to participate.[13] Currently, the grant recipient accomplishes 1 project for every 19.5 phone calls it receives (i.e., for every 19.5 phone calls received, only 1 landowner ultimately decides to sign up for the program.) To accomplish 900 projects per year, the grant recipient would need to receive 17,550 phone calls from the public each year, or 12,692 more than its historical average of 4,858. From July 2009 through June 2010, public interest in the program only generated about 417 projects, versus the 900 the grant recipient needed to meet its combined Recovery Act and non-Recovery Act project goals. Based on our analysis, we found no evidence that the grant recipient's projected workload was large enough to require funding from both Recovery Act and non-Recovery Act sources. We concluded that the Recovery Act funds were essentially being used in lieu of the non-Recovery Act funding already allocated to the non-Recovery Act work.

**Grant Recipient Replaced Non-Recovery Act Funds With Recovery Act Funds -** In FS' Southern Region, the State of Alabama (the grant recipient) awarded Recovery Act funds to another State agency (the sub-grantee) to supplement already funded non-Recovery Act project work. The sub-grantee's non-Recovery Act project work was funded by a Fish and Wildlife Service (FWS) grant[14] and involved reimbursing landowners for 64 percent of certain seedling costs.[15] In order to meet the Recovery Act's objective of maximizing the number of jobs created within the shortest period of time, the sub-grantee should have used the Recovery Act funds it received to expand the amount of work done in the program. Instead, the sub-grantee simply used the FS Recovery Act funds to replace the non-Recovery Act grant funds it

[12] The primary purpose of the grant program was to reimburse private homeowners for the removal of excess fuels (e.g., thin and prune trees and remove brush) from around their homes, in order to reduce the risk of fire. The size of each project varies, depending on the amount of land surrounding each home in need of treatment. Homeowners receive a customized plan, written by a professional forester, describing vegetation to be removed under the program. Once homeowners have their plan, they can either conduct the thinning themselves or hire a contractor to do the work.

[13] The grant recipient uses promotional brochures and informational handouts distributed through direct mail, community-placed flyers, community events, and a recently created website to generate homeowner interest in the program.

[14] FWS is an agency within the Department of Interior.

[15] The purpose of the grant program was to reimburse landowners 64 percent of all costs associated with planting longleaf- pine tree seedlings on their land. A typical project includes costs for site preparation, seedlings, and seedling planting costs. The Recovery Act sub-grant allows the sub-grantee to increase the seedling cost reimbursements to 100 percent.

had already received from the FWS to increase its landowner reimbursement rate from 64 to 100 percent. No new project work or landowner enrollments were initiated. Once the FS Recovery Act funds were depleted, the sub-grantee resumed paying landowner reimbursements from its FWS grant at the original rate of 64 percent. Although State agency officials acknowledged, when interviewed, that no new jobs were created or existing jobs sustained with the Recovery Act funds it received, it was their understanding that Recovery Act funds were to be spent as quickly as possible. Enrolling additional participants in the program would have taken time and delayed Recovery Act expenditures. While we understand the State agency's desire to quickly spend the Recovery Act funds, its actions did not fulfill the intent of the Recovery Act because increasing reimbursement rates (rather than expanding the scope of the program work) did not create any new jobs or prevent existing jobs from being lost.

Recovery Act funds were intended to stimulate the economy by creating new jobs as quickly as possible as well as preventing the loss of existing jobs. To meet the intent of the Act, FS should have informed those grant recipients receiving Recovery Act funds that they were expected to simultaneously perform both their Recovery Act and non-Recovery Act projects. Allowing grant recipients to replace non-Recovery Act funding with Recovery Act dollars or to delay the start of Recovery Act-funded project work until non-Recovery Act funds are spent did relatively little, if anything, to stimulate the economy because the recipients did not use the grant funds to create any new jobs and none of their existing jobs were at risk of being lost. To ensure Recovery Act funds are used to timely create or sustain the most jobs possible, FS should instruct non-Federal WFM Recovery Act grant recipients that their Recovery Act grant funds must be used concurrently with their non-Recovery Act grant funds. The guidance should prohibit those grant recipients receiving Recovery Act funds from (1) postponing their Recovery Act-funded projects in order to first complete their non-Recovery Act-funded projects (both should be performed concurrently) and (2) replacing the funds they received for their non-Recovery Act-funded work with Recovery Act funds. FS should also monitor whether Recovery Act grant recipients are meeting the above requirement. For those grant recipients unable to complete their Recovery Act projects concurrently with their non-Recovery Act projects, FS should determine the necessary actions to obtain compliance. We discussed our concerns with FS officials, who generally agreed with our finding and recommendations.

We recommend that FS:

1. Instruct non-Federal WFM Recovery Act grant recipients that their Recovery Act grant funds must be used concurrently with their non-Recovery Act grant funds. The guidance should also prohibit those grant recipients receiving Recovery Act funds from (1) postponing their Recovery Act-funded projects in order to first complete their non-Recovery Act-funded projects (both should be performed concurrently) and (2) replacing the funds they received for their non-Recovery Act-funded work with Recovery Act funds.

2. Monitor whether Recovery Act grant recipients are meeting the above requirements.

3. For those grant recipients unable to complete their Recovery Act projects concurrently with their non-Recovery Act projects, determine the necessary actions to obtain compliance.

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:** June 16, 2011

**Subject:** Response to 08703-5-SF (5) Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act – The Recovery Act – Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands

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

This letter is in response to the subject audit report No. 08703-5-SF (5) Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act received on June 3, 2011, from the USDA Office of the Inspector General (OIG). We appreciate the opportunity to respond to your fast report. The response for each recommendation follows:

**OIG Recommendation #1:** Instruct non-Federal WFM Recovery Act grant recipients that their Recovery Act grant funds must be used concurrently with their non-Recovery Act grant funds. The guidance should also prohibit those grant recipients receiving Recovery Act funds from (1) postponing their Recovery Act-funded projects in order to first complete their non-Recovery Act-funded projects (both should be performed concurrently) and (2) replacing the funds they received for their non-Recovery Act-funded work with Recovery Act funds.

**Forest Service Response**: The Forest Service agrees with this recommendation, and has previously issued reminders regarding the need to monitor ARRA recipient accomplishments closely to validate the number of jobs created/retained (Enclosure A). A letter of reminder will be issued to all Regions requiring them to instruct grant recipients who are still performing Recovery Act work to execute Recovery Act projects concurrently with non-Recovery Act projects in order for them to meet the intent of creating and retaining jobs. The letter will be issued by July 29, 2011.

**OIG Recommendation #2:** Monitor whether Recovery Act grant recipients are meeting the above requirements.

**Forest Service Response**: The Forest Service agrees with this recommendation and has previously issued reminders on monitoring requirements (Enclosure A and B). The letter reminder in response to recommendation one will also serve as a reminder for Regions to monitor the States' progress in meeting the above requirements.

**OIG Recommendation #3:** For those grant recipients unable to complete their Recovery Act projects concurrently with their non-Recovery Act projects, determine the necessary actions to obtain compliance.

**Forest Service Response**: The Forest Service agrees with this recommendation and has previously provided a revision to ARRA provisions on the grant which includes remedies for noncompliance (Enclosure C). The letter of reminder in response to recommendation one will also instruct Regions to determine necessary actions for recipients unable to complete their Recovery Act projects concurrently with non-Recovery Act projects, if any are identified.

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