



United States Department of Agriculture
Office of Inspector General





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AUDIT
NUMBER: 08703-0001-SF

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Thelma Strong
Acting Chief Financial Officer
Forest Service

FROM: Gil H. Harden
Assistant Inspector General
for Audit

SUBJECT: American Recovery and Reinvestment Act – Forest Service Wildland Fire
Management – Wood-to-Energy Projects

This report presents the results of the subject review. Your written response to the official draft report, excluding the attachments, is included at the end of the report. Excerpts from the response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on the information in your written response, we have accepted your management decision for all of the recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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American Recovery and Reinvestment Act – Forest Service Wildland Fire Management – Wood-to-Energy Projects

Executive Summary

The American Recovery and Reinvestment Act (Recovery Act) was enacted by Congress on February 17, 2009, to stimulate the Nation’s economy and to create or save jobs across the country. The Recovery Act awarded Forest Service (FS) \$1.15 billion to implement projects that would directly accomplish its mission. This included up to \$50 million for wood-to-energy projects that promote increased utilization of biomass from Federal, State, and private lands.¹ To meet this goal, FS funded 21 projects, some of which were supported by multiple grants. To ensure funds were used appropriately, we initiated a review of the wood-to-energy projects.

We statistically selected 9 projects for review (which had a total of 10 grants associated with them) to ensure funds were spent in a manner that met the accountability and transparency requirements of the Recovery Act and to determine if projects were effectively monitored. The Office of Management and Budget (OMB) requires Federal awarding agencies to ensure grant recipients’ financial management systems provide records that identify the source and application of funds for Federally-sponsored activities. Also, FS regulations require that program outlays consist of grant recipients’ actual expenditures to ensure that Recovery Act and non-Recovery Act grants were used for actual and allowable expenditures. However, FS accepted and approved payments to grant recipients without obtaining and reviewing documentation to support the use of Recovery Act funds or ensuring work was completed per the terms of the grant agreement. FS program managers had a practice of using estimates and verbal statements provided by grant recipients rather than obtaining and reviewing supporting documentation. The FS program managers believed that their practice of using estimates and verbal statements to approve requests for payments was sufficient to ensure program funds were used as prescribed.

As a result of this practice, FS disbursed funds based on estimates and statements provided by grant recipients (see Finding 1). For 4 of the 10 grant agreements we reviewed, we found that neither FS nor the grant recipients had the required documentation to support nearly \$5.5 million in charges to related grants. We reported this in four Fast Reports dated between July 2010 and March 2011. Based on the results from our samples, we statistically projected unsupported costs of about \$9 million. Since FS used the same controls to monitor Recovery Act and non-Recovery Act grants, findings and recommendations on controls apply to both Recovery Act and non-Recovery Act grants.

We also reviewed whether the wood-to-energy projects FS selected for funding met eligibility and program requirements and whether FS met Recovery Act reporting requirements. During the

¹ Biomass is the by-product of management, restoration, and hazardous fuel reduction treatments, including trees and woody plants. This woody biomass represents a potential source of raw material to produce small wood products, energy in the forms of heat, fuel or electricity, and other useful products such as mulch or erosion control products. Using woody biomass, instead of wasting or burning it, has numerous social, economic, and environmental benefits.

course of our review, nothing came to our attention to indicate that the selected projects did not meet eligibility and program requirements and that reporting requirements were not met.

Recommendation Summary

In response to our Fast Reports, FS agreed to obtain documentation from four grant recipients to verify that their expenditures match payment requests and to ensure these charges were allowable. FS also agreed to recover any unallowable payments and interest received by these recipients. In addition, FS will require the grant recipient to provide supporting documentation with the Self-Certified Advanced Liquidation Form.² FS will also amend the specific grant agreement to clarify that when the grant recipient requests an advanced payment, the recipient must provide two estimates and receipts after the advanced funds are fully expended.

We also recommended FS to review grant recipients' documentation for the remaining wood-to-energy projects to ensure the use of Recovery Act funds was supported and in accordance with the terms and provisions of the grant agreement.

Agency Response

In its written response, dated May 1, 2012, FS concurred with all the reported findings and recommendations. FS' response is included at the end of this report.

OIG Position

We accept FS' management decision on Recommendations 1 through 4.

² The Self-Certified Advanced Liquidation form is used by the grant recipient to certify that all advanced funds were spent.

Background and Objectives

Background

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act).³ Under the Act, FS was provided \$1.15 billion in funding; with \$500 million dedicated for Wildland Fire Management. Funds dedicated for Wildland Fire Management included up to \$50 million for wood-to-energy projects. In passing the law, Congress emphasized accountability and transparency of funds spent through the Recovery Act. To accomplish this, OMB issued guidance in February 2009 that required Federal agencies to establish internal controls, oversight mechanisms, and other approaches to meet the Recovery Act's accountability objectives.⁴ 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 required United States Department of Agriculture's (USDA) Office of Inspector General (OIG) to oversee agency's activities to ensure Recovery Act funds were spent in a manner that minimizes the risk of improper use.

The wood-to-energy grant projects were designed to create markets for small-diameter wood and low-valued trees removed during forest restoration activities. The grants allowed communities and entrepreneurs to turn residues from forest restoration activities into marketable energy products. As of May 13, 2010, FS funded 21 projects with more than \$48 million. The terms and provisions for each project were noted in the respective grant agreements. We initiated an audit in August 2009 to determine if FS complied with applicable laws and regulations for the funding, monitoring, and reporting for these projects.

In April 2009, FS established four Economic Recovery Operation Centers (EROCs) to streamline the acquisition management process. EROCs' staff was composed of government personnel, re-employed annuitants, and contract employees who worked in one of two divisions: Contracting or Grants and Agreements (G&A). G&A specialists were responsible for administering grants to ensure they complied with the Recovery Act and OMB guidance. OMB also established reporting requirements to create a level of transparency and accountability so that the public would be informed of where Federal agencies spent Recovery Act dollars.

When Recovery Act funds expired—at the end of fiscal year (FY) 2010—the EROCs were no longer awarding new grants. At the start of FY 2011, FS transferred the EROCs' responsibilities for administering and monitoring Recovery Act awards to the appropriate FS regions. FS developed a Transition Plan that identified the actions and timelines of transitioning all remaining open grants to FS regions. Each region would be responsible for developing its own Internal Process Plan that would outline the continuation of administering and monitoring activities of Recovery Act awards, which would also include performing the required number of quality assurance reviews.

³ Public Law 111-5 (February 17, 2009).

⁴ OMB, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (February 18, 2009).

Objectives

The objectives of our review were to determine if FS: (1) complied with applicable laws and regulations; (2) selected wood-to-energy projects that met eligibility and program requirements; (3) monitored the Recovery Act funded projects on Federal and non-Federal lands; and (4) ensured reporting requirements were met.

Finding 1: Forest Service Paid Grant Recipients for Unsupported Costs

FS' current policy for reviewing grant payment requests does not provide adequate assurance that Recovery Act funds are used for actual and allowable expenditures. For 4 of the 10 grants we reviewed, FS paid grant recipients for expenses that were not supported.⁵ Specifically, FS did not review grant recipients' documentation to demonstrate that reimbursements and advances were used for project expenditures and in accordance with the provisions of the grant agreement. This occurred because FS program managers had a practice of using estimates and verbal statements provided by grant recipients rather than obtaining and reviewing supporting documentation. Since FS did not obtain and review documentation to support the use of Recovery Act funds, or ensure work was completed in accordance with provisions of the grant agreement, we questioned nearly \$5.5 million (see Exhibit A) in charges to the four grants. Based on our sampled results, we projected a total of about \$9 million in unsupported costs.⁶

OMB requires Federal awarding agencies to ensure grant recipients' financial management systems provide records that identify the source and application of funds for Federally-sponsored activities.⁷ Also, FS regulations require that the total program outlays consist of grant recipients' actual expenditures.⁸ In addition, OMB requires that advances be "limited to the minimum amounts needed and timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization."⁹ These existing circulars and regulations were also used to administer Recovery Act grants.

To receive a Recovery Act payment, grant recipients must submit an SF-270, Request for Advance or Reimbursement, to FS. The FS program manager is responsible for reviewing the SF-270 and ensuring Recovery Act funds are used appropriately. For reimbursements, FS program managers must verify that the information reported on the SF-270 reflects actual expenditures by reviewing supporting documentation. For an advance, FS program managers must ensure that the advance is reasonable by reviewing estimates.

We found that OMB circulars do not require grant recipients to submit documentation to support their payment requests.¹⁰ However, FS has the responsibility to ensure that program funds are

⁵ There were ten grants awarded for the nine selected projects. (See Exhibit D)

⁶ Because the lower bound of the 95 percent confidence interval is negative, the (logical) lower bound on this estimate is the observed \$5.5 million. The upper bound is \$18.2 million, which is the upper bound of the 95 percent confidence interval around the projected \$9.0 million.

⁷ OMB Circular No. A-110, Uniform Administrative Requirements for Grants and Agreements, Subpart C.21.b.2 (amended September 30, 1999).

⁸ Forest Service Handbook 1509.11, Chapter 24, Grants, Cooperative Agreements, and Other Agreements Handbook, Chapter 20-Federal Financial Assistance (Grants & Cooperative Agreements) (October 20, 2009).

⁹ OMB Circular No. A-110, Uniform Administrative Requirements for Grants and Agreements, Subpart C.22 (b) (amended September 30, 1999).

¹⁰ OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments (October 7, 1994); OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (November 19, 1993).

used in accordance with the grant agreement. To satisfy the responsibility, FS used estimates and verbal statements rather than reviewing supporting documentation.

For 4 of the 10 grants we reviewed, FS paid 9 payment requests; 7 reimbursements and 2 advances. During our review, we found transparency and accountability issues with four of the seven requests for reimbursements and with both advances. Specifically, FS did not ensure grant recipients had records that supported the use of Recovery Act funds and that funds were used as prescribed.

We reported in four Fast Reports issued from July 2010 to March 2011 that four grant recipients (B, C, D, and E) had issues related to unsupported costs. One of these recipients had additional issue concerning the text of its grant agreement and with documentation it submitted to settle advance payments. The above issues are discussed in greater details below:

Grant Recipient B

FS reimbursed Grant Recipient B for costs associated with re-opening a previously closed biomass power plant without reviewing documentation to support their payment requests. In December 2009, the grant recipient received \$1.4 million to pay vendors for costs associated with maintaining and purchasing equipment. However, we found that the grant recipient had only expended \$160,883, and per the terms of the grant agreement, should have only been reimbursed for its actual expenditures. To authorize the disbursement, FS relied on the estimates provided by the grant recipient rather than reviewing documentation that supported actual expenditures. We questioned the remaining \$1.25 million which, at the time of our review, was in the grant recipient's interest bearing account.

Grant Recipient C

FS advanced funds to Grant Recipient C without ensuring a portion of the \$231,000 advance was supported and used for the expansion of its pellet mill. In August 2009, Grant Recipient C used \$177,243 of the \$231,000 advance to purchase equipment and supplies. However, we found that the FS program manager did not review documentation that ensured program funds were expended in accordance with the terms of the grant agreement. Accordingly, we questioned \$177,243 of the advanced payment.

The FS program manager stated they relied on the grant recipient's Self-Certified Advance Liquidation Form to ensure the advance of \$177,243 was used appropriately. This form allows the grant recipient to self-certify that Recovery Act funds were used for actual and allowable expenses. However, using this form as the sole support for charges is contrary to OMB requirements, which require FS to ensure Recovery Act funds were disbursed in accordance with the provisions of the grant agreement.¹¹

We also noted that a clause in the grant agreement specified that the grant recipient must provide at least two estimates and copies of sales receipts when requesting an advance. However,

¹¹ OMB Circular No. A-110, Uniform Administrative Requirements for Grants and Agreements, Subpart C.22 (b) (amended September 30, 1999)

considering that no purchases are made when a grant recipient requests an advance, this requirement was impossible to meet. The FS program manager stated that the clause in the grant agreement was incorrect and agreed to amend the agreement to reflect that when requests for payment advances are made, grant recipients must provide two estimates for equipment purchases and copies of original sales receipts after the advanced funds were fully expended.

Grant Recipient D

FS reimbursed Grant Recipient D \$2.25 million to fund the site preparation and construction of a combined heat and power facility, without reviewing documentation to support the grant recipient's requests. On August 21, 2009, the grant recipient submitted a request for reimbursement for \$1,653,515 for research and design, equipment, and construction costs. On December 29, 2009, the grant recipient submitted another request for reimbursement for \$591,902 for additional construction costs. The FS program manager did not review documentation from the grant recipient to support the actual costs because he believed that matching the original budget amount and the estimates submitted by the grant recipient for the SF-270 was sufficient to justify payment.

On September 21, 2009, Grant Recipient D also submitted a request for an advance payment of \$1,656,226 for construction and other expenses. The FS program manager stated that he relied on a verbal statement from the grant recipient that the advance payment was used for construction costs per the terms of the grant agreement. In December 2009, the grant recipient informed us these advanced payments were used to purchase a sawmill and not for construction of a combined heat and power facility.

In March 2010, we requested documentation from the grant recipient to support the use of the \$2.25 million reimbursement and the \$1.65 million advance payment. After two requests, the grant recipient did not provide any documentation to indicate that Recovery Act funds were used for the purposes identified in the grant agreement. We questioned the entire \$3.9 million since the grant recipient did not maintain the documentation to support the payment requests.

Grant Recipient E

In February 2010, FS reimbursed Grant Recipient E \$783,013 to fund the site preparation and construction of a boiler heating facility, without ensuring documentation was available to support their requests. During our review, we found that the grant recipient had documentation to support expenditures of \$533,013 and used the additional funds to establish a contingency fund. The FS program manager stated that he relied on the grant recipient's verbal statements and an unsupported SF-270 to approve the reimbursement. He stated that he was unaware that the contingency fund had been established. As a result, we questioned the additional \$250,000 deposited into Grant Recipient E's interest bearing account.

In response to our four Fast Reports, FS agreed to take appropriate actions to obtain required documentation from the grant recipients to verify expenditures were allowable and recover any unsupported costs. FS also agreed to calculate and recover any interests received by the grant recipients on excess Recovery Act funds. In addition, FS agreed to require the grant recipient to

provide supporting documentation with the Self-Certified Advanced Liquidation Form and amended the grant agreement to clarify that when there is a request for an advanced payment; the grant recipient must provide two estimates and receipts after the advanced funds were fully expended. Accordingly, we are recommending FS review grant recipients' documentation for the remaining wood-to-energy projects to ensure that the use of Recovery Act funds is fully supported.

Recommendation 1

Obtain documentation from Grant Recipients B, C, D, and E to ensure that expenses of \$5,577,883 are adequately supported and allowable under the terms of the grant agreement (see Exhibit D) and recover any excess funds and interest received. Based on the results of our samples, we statistically projected unsupported costs of \$9,061,395 (see Exhibit A).

Agency Response

FS concurs with this recommendation. In responses to the Fast Reports (April 23, 2010, August 5, 2010, September 30, 2010, and March 3, 2011) FS obtained supporting documentation to ensure that expenses are adequately supported and allowable under the terms of the grant agreement. FS also determined that there were no excess funds and interests to be recovered.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Require Grant Recipient C to provide supporting documentation with the Self-Certified Advanced Liquidation Form to ensure that advanced funds are fully expended.

Agency Response

FS concurs with this recommendation. In response to the Fast Report dated August 5, 2010, FS stated that it does require supporting documentation of equipment expenditures prior to approving the Advanced Liquidation transaction and has obtained copies of the original receipts of the equipment purchased under the advance.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Amend Grant Recipient C's grant agreement to ensure payment advances for equipment purchases are supported by at least two estimates and copies of original sales receipts are provided after the advanced funds are fully expended.

Agency Response

FS concurs with this recommendation. In response to the Fast Report dated August 5, 2010, FS stated that since the project is in its final stage and the grant will soon be closed, FS had sent a letter to Grant Recipient C clarifying the wording in the grant award, in lieu of an amendment at this time.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Review grant recipients' documentation for the remaining wood-to-energy projects to ensure that the use of Recovery Act funds are fully supported and used in accordance with the grant agreement.

Agency Response

FS concurs with this recommendation. FS will conduct a risk-based review on the four remaining projects (totaling \$11.7 million). Since OIG's initial review of the wood-to-energy projects, 8 of the 12 remaining projects have closed. FS will examine any remaining grant awards greater than \$1 million. During the review, FS will ensure that the use of Recovery Act funds were fully supported and were used in accordance with the grant agreement.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted a nationwide review of FS wood-to-energy projects funded by the Recovery Act during FYs 2009 through 2010. These projects, funded via the Wildland Fire Management program, were designed to create markets for low-valued trees and small-diameter wood removed during forest restoration projects.

We reviewed 14 of the 21 wood-to-energy projects valued at \$39 million and had disbursements of \$10.4 million as of May 13, 2010 (see Exhibit B for our statistical sampling methodology). Accordingly, we performed fieldwork at 4 EROCs, 4 regional offices, project sites for 10 grant agreements, the Forest Product Laboratory, Northeastern Area State and Private Forestry Office, and a research station. See Exhibit C for a complete listing of sites visited.

To accomplish our audit we:

- Reviewed relevant laws, regulations, policies, and guidance governing use of Recovery Act funding for FS wood-to-energy projects.
- Contacted Investigations regarding any ongoing cases involving grant recipients.
- Reviewed available OIG and Government Accountability Office reports involving wood-to-energy projects.
- Interviewed FS officials at the regional offices, EROCs, and State and Private Forestry offices to understand the processes for managing and administering wood-to-energy projects and overseeing Recovery Act funds.
- Verified if projects met program and Recovery Act requirements, which included reviewing or verifying the quality and scope of work, ensuring grant recipients provided timely and accurate reports, and monitoring activities.
- Examined the process of grant payments by interviewing FS officials to gain an understanding of the process and systems used.
- Obtained and reviewed project financial documents including SF-270, and I-Web print outs (disbursement information).
- Interviewed grant recipients key personnel to determine their responsibilities, day-to-day activities, status of the projects, milestones, and future actions.
- Observed project activities and flow of work processes; conducted site visits of the facilities to understand the project and verified the accomplishments.
- Obtained and reviewed copies of invoices, receipts, and all other supporting documentations to verify expenditures and requests for payments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

EROC	Economic Recovery Operation Centers
FS	Forest Service
FY	Fiscal Year
G&A.....	Grants and Agreements
OIG	Office of Inspector General
OMB	Office of Management and Budget
USDA.....	United States Department of Agriculture

Exhibit A: Summary of Monetary Results

Finding Number	Recommendation Number	Description	Amount	Category
1	1	FS paid grant recipients for unsupported costs	\$5,577,883	Unsupported Costs and Loans, Recovery Recommended
1	1	Projected amount at point estimate (minus sample amount)	\$3,483,512	Unsupported Costs and Loans, Recovery Recommended
Total Monetary Results			\$9,061,395*	
* Based on our sampled results, we statistically projected about \$9 million in unsupported costs.				

Exhibit B: Sampling Methodology for Wood-to-Energy Projects

Objective:

This sample was designed to support the audit of whether wood-to-energy expenditures and their associated grant agreements using Recovery Act funds complied with applicable laws and agency procedures.

Audit Universe:

We coordinated with a statistician in selecting our sampled projects. Our universe for this audit was the 14 wood-to-energy projects, funded under the Recovery Act. The 14 projects were valued \$39 million and had disbursements of \$10.4 million as of May 13, 2010. An additional seven projects were valued \$9.2 million; however, these projects did not have any disbursements as of May 13, 2010, which led us to exclude them from the audit universe.

Sample Design:

During the preliminary phase of the audit, we judgmentally selected and reviewed one project, WFM-1111-12B, to familiarize ourselves with the FS' grant process.¹² Because this project was not selected as part of the overall random sample, this project is considered as a census stratum of one, i.e., it is not assumed to represent any projects other than itself.

For the remainder of the audit universe (13 projects), we selected a simple random sample of 8 projects for review. Potentially, each project could involve a number of grants, which could not be identified until the project records were reviewed at the appropriate EROC. We found one of the selected projects (WFM-05-01WTE) that were composed of two grants (the remaining seven projects have only one grant agreement per project); we reviewed both grants.

We did not have any information on which to base a sample size calculation for the samples within strata. In particular, we did not know whether to expect the variance within projects or the variance between projects to dominate. We decided to use a total sample of 9 of the 14 projects with disbursements, which would be appropriate for compliance tests with a low expected error rate, a 10 percent risk of overreliance, and a 10 percent tolerable error rate. Eight of the nine sampled projects were in the randomly-selected stratum; one was in the census stratum. The final sample design included the projects and awards shown in the following table, for the random stratum (Stratum I) and the census stratum (Stratum II).

¹² The project has only one grant agreement.

Table 1: Projects and Awards

Stratum	Project Number	Number of Awards (Grants)
I	WFM-0860-02B	1
I	WFM-05-01WTE	2
I	WFM-0627-13WTE	1
I	WFM-0627-10WTE	1
I	WFM-1111-1B	1
I	WFM-0860-03B	1
I	WFM-4200-03WTE	1
I	WFM-0460-05WTE	1
II	WFM-1111-12B	1

Results:

Results are projected to the audit universe of 14 projects, with a total value of \$39 million. Achieved precision, which is indicated by the confidence interval, is reported here for a 95 percent confidence level. All projections are made using the normal approximation to the binomial as reflected in standard equations for a stratified sample.¹³ We note that in some instances the calculated lower bound is lower than the actual amount observed in the sample; in those cases, we show both values. All percentages indicated are percents of the audit universe of projects; for example, $4/14 = 28.6$ percent of the audit universe.

Issue: Unsupported Costs

Based on the sample results, we project that FS made payments for unsupported costs for between 3 and 10 projects (4 such projects observed in sample). The point estimate is that six to seven projects received payments for unsupported costs, i.e., about 46 percent of the audit universe. Achieved precision¹⁴ was +/- 25.7 percent of the universe of projects. In addition, we project that the value of such unsupported costs is between the \$5.6 million observed in the audit and about \$18.2, with a point estimate of about \$9.1 million. The results of the statistical projections are shown in the following table.

¹³ Scheaffer, Mendenhall, Ott, Elementary Survey Sampling, Fourth Edition (Chapter 5), Duxbury Press, c1990.

¹⁴ Achieved precision equals one-half the difference between the lower bound and the upper bound of the confidence interval. For example, $(10 - 3) / 2$ equals 3.5. Expressed as a fraction of the universe, this is $3.5 / 14$, or 25 percent absolute precision. Expressed as a fraction of the point estimate, this is $3.5 / 6.5$, or 54 percent relative precision.

Table 2: Statistical Projections

Issue: Unsupported Costs					
Measure	Point Estimate (Projection)	95 Percent Confidence Interval		Exceptions Observed in Sample (Raw Data)	
		Lower Bound, Calculated [Observed]	Upper Bound	Stratum I	Stratum II
Number of Projects with Unsupported Costs	6.5	3 [4]	10	4	0
Proportion of Projects with Unsupported Costs	46.4 percent	20.7 percent [28.6 percent]	72.2 percent	30.7 percent	0 percent
Amount of Unsupported Costs	\$9.1 million	-\$0.1 million [\$5.6 observed]	\$18.2 million	\$5.6 million	\$0

Exhibit C: Audit Sites

Organization/Entity	Location
Forest Service	
Region 4	Ogden, UT
Intermountain EROC	Golden, CO
Region 5	Vallejo, CA
Southwest EROC	Vallejo, CA
Region 6	Portland, OR
Northwest EROC	Sandy, OR
Region 8	Atlanta, GA
East EROC	Atlanta, GA
Forest Products Laboratory	Madison, WI
Northeastern Area State and Private Forestry Office	Newtown Square, PA
FS Land Between the Lakes National Recreation Area	Golden Pond, KY
Grantee	
Grant Recipient A Project Site	Blue Lake, CA
Grant Recipient B Project Site	Rancho Cordova, CA
Grant Recipient C Project Site	Kremmling, CO
Grant Recipient D Office	Spokane Valley, WA
Subrecipient Project Sites	Colville, WA
	Springdale, WA
Grant Recipient E Project Site	Garden Valley, ID
Grant Recipient F Project Site	Boise, ID
Grant Recipient G Office	Salem, OR
Subrecipient Project Sites	Prineville, OR
	John Day, OR

Grant Recipient H Office	Augusta, ME
Subrecipient Project Site	Phillips, ME
Subrecipient Project Site	Poland, ME
Subrecipient Project Site	Oxford, ME
Grant Recipient I Administrative Office	Hopkinsville, KY
Project Site	Cadiz, KY
Grant Recipient J Administrative Office	Hopkinsville, KY
Project Site	Eddyville, KY

Exhibit D: Projects Selected for Review

Grant Recipients	Project Number	Project Funding	Unsupported Costs	
			Advance	Reimbursement
A,B	WFM-05-01WTE ¹	\$4,500,000		\$1,248,997
C	WFM-1111-1B	\$250,000	\$177,243	
D ²	WFM-0627-10WTE	\$4,000,000	\$1,656,226	\$2,245,417
E	WFM-0460-05WTE	\$2,750,000		\$250,000
F ³	WFM-1111-12B	\$500,000		
G	WFM-0627-13WTE	\$5,000,000		
H	WFM-4200-03WTE	\$11,424,000		
I	WFM-0860-02B	\$1,000,000		
J	WFM-0860-03B	\$1,000,000		
Total		\$30,424,000	\$1,833,469	\$3,744,414
Total Unsupported Costs				\$5,577,883
¹ The project consists of two grant agreements. ² The total unsupported cost (advance and reimbursement) is \$3.9 million. ³ Grant Recipient F was a judgmentally-selected project and was included as a separate stratum.				

Exhibit E: Recovery Act Funded Wood-to-Energy Projects

Forest Service	State	Project Number	Project Funding
Southwestern (Region 3)	AZ	WFM-AZ-01WTE	\$1,400,000
	NM	WFM-NM-02B	\$2,500,000
Intermountain (Region 4)	ID	WFM-0460-05WTE	\$2,750,000
	NV	WFM-0460-01B	\$620,000
Pacific Southwest (Region 5)	CA	WFM-05-01WTE	\$4,500,000
Pacific Northwest (Region 6)	OR	WFM-0627-04WTE	\$5,000,000
		WFM-0627-05WTE	\$800,000
		WFM-0627-13WTE	\$5,000,000
	WA	WFM-0627-10WTE	\$4,000,000
Southern (Region 8)	KY	WFM-0860-02B	\$1,000,000
		WFM-0860-03B	\$1,000,000
Forest Products Laboratory	CA	WFM-1111-2B	\$248,000
	CO	WFM-1111-17	\$250,000
		WFM-1111-1B	\$250,000
		WFM-1111-23	\$250,000
	ID	WFM-1111-12B	\$500,000
	MN	WFM-1111-7C	\$250,000
	ND	WFM-1111-22	\$237,000
Rocky Mountain Research Station	OR	WFM-0615-02B	\$300,000
Northeastern Area State and Private Forestry	ME	WFM-4200-03WTE	\$11,424,000
	MO	WFM-4200-01WTE	\$6,000,000
Total Wood-to-Energy Projects			\$48,279,000

**USDA'S
FOREST SERVICE
RESPONSE TO AUDIT REPORT**



Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430

Date: May 1, 2012

Route To:

Subject: Response to Office of Inspector General Draft Report No. 08703-01-SF, " Forest Service Wood-to-Energy Projects," dated March 30, 2012

To: Gil Harden, Assistant Inspector General for Audit, Office of Inspector General, USDA

Thank you for the opportunity to review and comment on the Office of Inspector General draft audit report titled, "Forest Service Wood-to-Energy Projects," dated March 30, 2012. The Forest Service concurs with the report's findings and recommendations. The agency's comments regarding the status of recommendation numbers one through three and our plans to implement recommendation number four are enclosed.

If you have any questions, please contact Thelma Strong, Acting Chief Financial Officer, at 202-205-1321 or tstrong@fs.fed.us.

/s/ Thomas L. Tidwell
THOMAS L. TIDWELL
Chief

Enclosures:

cc: Dianna Capshaw
Erica Y Banegas
Jaelith H Rivera
David C Atkins
Paul Ries
Robin Thompson
Elizabeth Donnelly



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USDA Forest Service (FS)

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Office of Inspector General (OIG) Audit Report No. 08703-0001-SF
The Recovery Act - FS Wood-to-Energy Projects
March 31, 2012

Status Update and Closure

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OIG Recommendation #1: Obtain documentation from Grant Recipients B, C, D, and E to ensure that expenses of \$5,577,883 are adequately supported and allowable under the terms of the grant agreement (see Exhibit D) and recover any excess funds and interest received. Based on the results of our samples, we statistically projected unsupported costs of \$9,061,395 (see Exhibit A).

FS Response: In response to OIG's Fast Reports (dated April 23, 2010, August 5, 2010, September 30, 2010, and March 3, 2011), FS concurred with the recommendation. FS obtained supporting documentation to ensure that expenses are adequately supported and allowable under the terms of the grant agreement. FS also determined that there were no excess funds and interests to be recovered.

OIG Position: We accept FS' management decision on this recommendation.

FS Actions Completed to date: FS requests closure of this recommendation. FS completed the corrective action by obtaining supporting documentation during their review to ensure costs were supported and allowable under the terms of the agreement. See Final Reviews - **Enclosure A.**

OIG Recommendation 2: Require Grant Recipient C to provide supporting documentation with the Self-Certified Advanced Liquidation Form to ensure that advanced funds are fully expended.

FS Response: In response to OIG's Fast Report (August 5, 2010), FS concurred with the recommendation. FS does require supporting documentation of equipment expenditures prior to approving the Advanced Liquidation transaction and has obtained copies of the original receipts of the equipment purchased under the advance.

OIG Position: We accept FS' management decision on this recommendation.

FS Actions Completed to date: FS requests closure of this recommendation. FS completed the corrective action by requesting the grant recipient provide supporting documentation showing that the advanced funds were fully expended. See **Enclosure B.**

OIG Recommendation 3: Amend Grant Recipient C's grant agreement to ensure payment advances for equipment purchases are supported by at least two estimates and copies of original sales receipts are provided after the advanced funds are fully expended.

FS Response: In response to OIG's Fast Report (August 5, 2010), FS concurred with the recommendation. Since the project is in its final stage and the grant will soon be closed, FS had sent a letter to Grant Recipient C clarifying the wording in the grant award, in lieu of an amendment at this time.

OIG Position: We accept FS' management decision for this recommendation.

FS Actions Completed to date: FS requests closure of this recommendation. FS completed the corrective action by sending a letter to the grant recipient, clarifying the terms of the grant, in lieu of an amendment to the grant agreement. See **Enclosure C**.

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USDA Forest Service (FS)

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Office of Inspector General (OIG) Audit Report No. 08703-0001-SF

The Recovery Act - FS Wood-to-Energy Projects

March 30, 2012

Management Decision

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OIG Recommendation 4: Review grant recipients' documentation for the remaining wood-to-energy projects to ensure that the use of Recovery Act funds are fully supported and used in accordance with the grant agreement.

FS Response: FS concurs with this recommendation. In response to the recommendation, FS will conduct a risk-based review on the four (4) remaining projects (totaling \$11.7 million). Since OIG's initial review of the Wood-to-Energy projects, 8 of the 12 remaining projects have closed. FS will examine any remaining grant awards greater than \$1 million. During the review, FS will ensure that the use of Recovery Act funds were fully supported and were used in accordance with the grant agreement.

Estimated Completion Date: February 28, 2013

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