



United States Department of Agriculture
Office of Inspector General





American Recovery and Reinvestment Act Forest Service Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands

Audit Report 08703-0005-SF

What Were OIG's Objectives

To determine whether FS and fund recipients complied with Recovery Act-related laws and regulations, properly selected and timely completed projects, and accurately accounted for work. This audit is part of OIG's required Recovery Act oversight.

What OIG Reviewed

The Recovery Act awarded \$214 million for WFM projects on non-Federal lands. We reviewed 20 grants for 11 projects totaling over \$50 million.

What OIG Recommends

FS should strengthen its overall grant administration by taking such actions as improving training and clarifying staff responsibilities. To address significant deficiencies in grantee and sub-grantee accounting processes, FS should enhance its monitoring efforts. FS should also recover \$27.5 million in unallowable costs charged to the grants, follow up on an additional \$33.6 million, and halt reimbursements to entities with persisting control weaknesses. We also identified several ways for FS to better ensure compliance with the Recovery Act.

This consolidated report provides a comprehensive look at the issues identified during OIG's audit of FS' controls over Recovery Act funds for WFM projects on non-Federal lands.

What OIG Found

Forest Service (FS) allocated American Recovery and Reinvestment Act (Recovery Act) grants for wildland fire management (WFM) activities, such as hazardous fuels reduction, forest health, and ecosystem improvements. Overall, we found that FS lacked the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose—not just for Recovery Act grants, but for the entire grant program. We also found that FS did not enhance its existing controls, despite the Recovery Act's requirements for greater transparency and accountability. As a result, the grant recipients we reviewed charged a total of \$92 million in unallowable and questionable costs to both Recovery Act and non-Recovery Act grants. Of this total, \$63 million came from grant recipients without adequate financial controls and processes, while \$29 million stemmed from FS and other entities' lack of adherence to the Recovery Act's objectives. We also found that FS staff did not take necessary steps to ensure that it met the Recovery Act's overall objective of maximizing job creation and retention in the most cost effective manner possible.

The Office of Inspector General (OIG) issued a series of 10 Fast Reports during the course of the audit to further strengthen FS' controls over future grants and address unallowable or questionable costs. Exhibit D of this report contains all recommendations included in our Fast Reports. This report also contains new recommendations to address issues we identified subsequent to the Fast Reports. FS generally concurred with all of our audit recommendations.



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



DATE: March 28, 2013

AUDIT
NUMBER: 08703-0005-SF

TO: Thomas L. Tidwell
Chief
Forest Service

ATTN: Thelma Strong
Chief Financial Officer
Forest Service

FROM Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: American Recovery and Reinvestment Act – Forest Service Hazardous Fuels
Reduction and Ecosystem Restoration Projects on Non-Federal Lands

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 on Recommendations 1-4, 7, 12-13, 15-21, 24-29, 32-38, 40-46, 48-49, and 51-62. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

Based on your written response, management decision has not been reached on Recommendations 5-6, 8-11, 14, 22-23, 30-31, 39, 47, and 50. The information needed to reach management decision on the recommendations is set forth in the OIG Position section after the recommendation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframe for implementing the recommendations for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months of report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence.

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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Background & Objectives

Background

On February 17, 2009, Congress enacted the Recovery Act to accelerate the economic recovery of the nation by preserving and creating jobs. The Recovery Act provided FS with \$1.15 billion in funding to help support its mission and create private sector jobs in economically distressed areas. Of the \$1.15 billion, \$500 million was allocated for FS' WFM projects through fiscal year (FY) 2010. Of the \$500 million, half went towards WFM projects on Federal lands, while the other half went towards WFM projects on non-Federal lands. The Recovery Act also allowed up to \$50 million of the \$500 million in WFM funds for wood-to-energy grants to promote increased biomass use from Federal, State, and private lands.

From May through September 2009, FS approved 152 WFM projects on non-Federal lands. FS allocated \$214 million to these projects, which included \$124 million for hazardous fuels reduction, \$73 million for forest health, and \$17 million for ecosystem restoration. Hazardous fuels reduction projects, which received over half the funds, could include tree thinning, pruning, and piling and burning underbrush removed from the non-Federal lands to reduce the risk of fire. FS field staff at the regional and national Forest levels primarily used grants to award the approved projects to State and local government entities, as well as universities, tribal governments, and non-profit organizations. These non-Federal entities applied for Recovery Act funds by submitting grant proposals to FS that described anticipated project work and estimated costs.

These grant recipients were subject to specific Office of Management and Budget (OMB) rules regarding the types of costs they could charge to the grants and how they should track and support those costs. The grant recipients were also responsible for managing the day-to-day financial and technical operations of the non-Federal WFM grant projects, and for monitoring the activities and finances of their sub-grant recipients. FS also had oversight responsibilities that included assessing grant recipients' policies and procedures to ensure they could properly account for the Recovery Act funds and meet other Recovery Act requirements. Recovery Act funds were subject to additional requirements that included mitigating the risk of fraud, waste, and abuse and strengthening existing policies and procedures. In response to the Recovery Act's emphasis on using funds in an accountable and transparent fashion, OMB issued guidance requiring FS and other Federal agencies to establish additional internal controls and oversight procedures to ensure Recovery Act funds were properly spent.

To provide enhanced oversight for the Recovery Act projects, FS established four Economic Recovery Operations Centers (EROCs) in April 2009. The EROCs were located in the following geographic areas: Northwest (Sandy, Oregon); Southwest (Vallejo, California); Intermountain (Golden, Colorado); and East (Atlanta, Georgia). FS staffed these centers with FS contracting officers and grant and agreement (G&A) specialists. The G&A specialists at each EROC reviewed the grant applications, determined the proper award type and provisions, and ensured the appropriate authority was cited for each project. After the grant funds were awarded, the

G&A specialists and FS program managers located in field offices throughout the country were responsible for monitoring grant recipients' project activities and grant expenditures.

For grants and agreements, EROCs relied on program managers in the regions to perform "ongoing and periodic" assessments of grantees' program activities and their financial compliance with grant terms. When Recovery Act funds expired at the end of FY 2010, the EROCs no longer awarded new contracts, grants, or agreements. At the start of FY 2011, EROCs' responsibilities were transferred to the appropriate FS regions. Each region was responsible for developing its own plan for administering and monitoring Recovery Act awards.

Objectives

Our objectives were to determine whether FS and subsequent recipients of the Recovery Act funds (1) complied with laws and regulations pertaining to the Recovery Act funding, (2) selected projects that met eligibility and program requirements, (3) accurately accounted for and timely completed projects in accordance with award expectations, and (4) accurately and timely reported their accomplishments. Regarding the fourth objective, we did not generally review the accuracy of the information that subsequent recipients of the Recovery Act funds reported, since this will be the subject of a future audit.

Section 1: FS' Overall Grant Administration Needs Improvement

Finding 1: FS Staff Did Not Adequately Oversee Grant Recipients' Use of Funds

FS staff did not conduct adequate assessments of grant recipients' financial processes for most of the Recovery Act- and non-Recovery Act-funded grants we reviewed—and in the vast majority of cases did not conduct any financial assessments. Specifically, FS staff did not conduct pre-award financial assessments to ensure grant recipients had the financial controls to properly account for the funds they received, and did not sufficiently monitor grant recipients' fund use after grant awards were made to ensure expenditures were appropriate and supported. This occurred because FS' grant administration policies and procedures were unclear regarding staff roles and responsibilities and staff were not properly trained or qualified to perform the tasks assigned to them. As a result, grant recipients used funds for a variety of unallowable purposes, engaging in activities such as non-competitive procurements and charging unauthorized costs not directly related to the grants. As we discuss in detail in Findings 2 through 6, we found FS grant recipients incurred about \$92 million of unallowable and questionable Recovery Act- and non-Recovery Act-funded grant expenditures (see Exhibit C).

OMB requires Federal agencies to oversee grant funds and ensure they are only used for allowable purposes.¹ OMB also required Federal agencies to initiate oversight measures over and above normal procedures to specifically prevent the misuse of Recovery Act funds.² As a part of this effort, OMB required Federal agencies to conduct risk assessments to ensure that staff overseeing Recovery Act funds were properly qualified, and determine whether existing policies and procedures were sufficient to identify and prevent instances of fraud, waste, and abuse. FS decided to use existing agency policy and procedures to monitor Recovery Act-funded grant recipients.

FS' existing procedures required staff to perform assessments of potential grant recipients' financial controls before making an award. These assessments were intended to ensure compliance with Federal requirements, that proposed indirect cost rates were acceptable and supported, and to review the recipients' grant budgets to ensure proposed costs were reasonable and necessary.³ Existing FS policies also required program managers to conduct ongoing post-award monitoring of a recipient to ensure appropriate expenditures and proper and timely-performed grant work. The pre-award assessments and post-award monitoring were the primary controls FS used to oversee both Recovery Act- and non-Recovery Act-funded grants.

FS disbursed over \$200 million of Recovery Act-funded grants to State and local government entities, as well as universities, tribal governments, and non-profit organizations, to perform

¹ OMB Circular No. A-123, Management's Responsibility for Internal Control, December 21, 2004.

² OMB Memorandum M-09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, April 3, 2009.

³ FS Handbook 1509.11, Chapter 20, Section 23.5, October 20, 2009.

WFM activities on non-Federal land.⁴ We reviewed 11 of the WFM projects consisting of 20 grants totaling more than \$50 million.⁵ During the same time period, FS also awarded significant amounts of grant funding to support other, non-Recovery Act related activities. From FYs 2009 through 2011, FS awarded non-Recovery Act-funded grants, totaling about \$2.4 billion, for work on non-Federal lands.

FS staff did not adequately perform two fundamental oversight controls over grant funding and, on a general level, had several misconceptions or knowledge gaps regarding Federal requirements and FS' own role as the funding agency. The following sections discuss these issues in greater detail.

Pre-Award Controls

Pre-award assessments are intended to address recipient control weaknesses before the grant funds have been committed and distributed, and served as a key control for all FS grants. For example, in a previous OIG audit on the Recovery Act, we reported that FS' post-award monitoring was inadequate. FS officials responded that post-award monitoring was largely unnecessary because FS' pre-award assessments had already established that grant recipients could and would comply with all Federal requirements.⁶

FS procedures required program managers and G&A specialists, hereafter referred to as specialists, to conduct the assessments. We found that neither program managers nor specialists actually performed these assessments because they lacked the qualifications to conduct the reviews, or because they assumed the assessments were unnecessary or had already been performed by someone else. FS' grant administration handbook did not assign specific assessment responsibilities to program managers and specialists, creating ambiguity about their roles and accountability in the assessment process.

Program managers are experts in areas such as forestry and fire management and generally oversee grants as part of many other job duties in other FS functions. Specialists process grant documents and maintain official files. In our fieldwork, we observed that program managers and specialists do not interact on a regular basis, and may work in separate locations—creating a communication gap that exacerbated these issues.

Since both program managers and specialists were named as responsible for conducting the pre-award assessments, in some instances, each group of staff assumed that someone else had already performed the required assessments and that no further actions were necessary. Also, FS' handbook provides little guidance as to the scope and extent of the financial analysis they were expected to perform.⁷ The handbook states that the review must ensure the grant

⁴ FS allocated \$214 million to 152 non-Federal WFM projects; about \$124 million was awarded for wildland fuels reduction projects, \$73 million for forest health projects, and \$17 million for ecosystem improvement projects.

⁵ See the Scope and Methodology section of this report for further details on our sample selection process.

⁶ *Forest Service's Use of ARRA Funds for Wildland Fire Management on Federal Lands*, Audit 08703-01-AT, September 28, 2012.

⁷ FS Handbook 1509.11, Chapter 20, Section 23.52, October 20, 2009.

recipient has sufficient financial strengths and capabilities, but does not adequately specify what the reviewer should look for. Confused by the specific aspects of the required assessments, FS staff did not attempt to perform them.

In addition to the ambiguity of their roles, FS staff we interviewed also made a series of incorrect assumptions that caused them to not perform assessments. First, FS staff knew grant recipients were subject to annual audits under the requirements of OMB Circular No. A-133.⁸ They incorrectly concluded that the audits would identify any Federal compliance issues and that they would be notified of the issues. However, although FS grant recipients were generally subject to annual audits, we examined the audits of the organizations in our sample and found that they often did not identify non-compliance. In the few cases where an annual audit did identify Federal compliance issues, FS field-level staff were not always informed of the results.

Second, FS staff also incorrectly determined that each grant recipient was aware of, and would comply with, applicable OMB and other Federal financial requirements because these requirements were referenced in the body of each grant award. We found that, while the grants did specifically reference the requirements, the grant recipients we spoke with had not read these requirements, under the mistaken assumption that FS staff would “tell them anything they needed to know.”

Third, since most of the grant applicants had previously received FS funds—some for decades—staff concluded these recipients clearly understood their grant oversight and compliance responsibilities. However, we found these assumptions unfounded. Of the \$92 million in unallowable and questioned costs we identified in our audit, the entire amount was associated with non-compliant activities of FS grant recipients that had previously received FS funds. For the grants we reviewed, we found no evidence that FS staff had ever performed pre-award assessments.

Post-Award Controls

FS procedures state that post-award monitoring of grant recipients is an “integral” part of its grant administration, intended to ensure that the recipients meet the objectives and financial requirements of their awards.⁹ Previous OIG reports noted that FS’ post-award monitoring procedures were inadequate because they did not identify or require specific financial monitoring activities to be performed.¹⁰ Our review identified an additional issue with the process. Specifically, we determined that FS program managers, who were assigned to conduct post-award monitoring, were not qualified to perform the financial oversight required of them.

⁸ These are more commonly referred to as “single” audits under OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Subpart B, Section 200, June 27, 2003.

⁹ FS Handbook 1509.11, Chapter 10, Section 15.6, October 20, 2009.

¹⁰ *Oversight and Control of Forest Service American Recovery and Reinvestment Act Activities*, Audit 08703-01-HY, September 30, 2011, and *Forest Service’s Use of ARRA Funds for Wildland Fire Management on Federal Lands*, Audit 08703-01-AT, September 28, 2012.

Unlike the pre-award review, program managers were solely responsible for conducting post-award monitoring of all grant recipient activities. The FS handbook states that, as part of their ongoing review of all grant project activities, program managers should review and ensure “financial compliance with the terms of the instrument and Federal law, which in part includes: accruals, invoicing, payments, and de-obligation.”¹¹

However, we found that program managers, given their background and job duties, were not qualified to perform such reviews. Program managers are trained and qualified to oversee programmatic aspects of project work, such as determining the type of hazardous fuels that should be removed from a forest. They did not have training or experience in OMB financial requirements, and FS procedures did not specify or even suggest that program managers should receive financial training. Consequently, most of the program managers we interviewed had little or no understanding of Federal financial rules and regulations. They limited their reviews to on-the-ground project work, and did not review financial records or inquire about financial processes.

On the other hand, FS’ G&A specialists received training in OMB and other Federal financial requirements, yet were not required by FS policy to initiate or participate in post-award financial monitoring. Specialists have specific training requirements that involve a two-level certification system, based on nearly 170 hours of formal training and on-the-job experience.¹² However, specialists are only required to participate in pre-award assessments and conduct other activities, such as ensuring grant terms and citations are correctly stated and obligating and de-obligating funds. Guidance states that specialists only become involved in addressing financial issues if and when the program manager first identifies them.

Training for Staff and Grant Recipients

During our review, we consistently found that both FS staff and FS grant recipients lacked knowledge about Federal requirements for grant recipients. In cases where we identified non-compliance, the grant recipients either stated that they had not read the OMB circulars and other Federal requirements they were subject to, or that they had read the requirements but had not properly understood them. Program managers, as previously mentioned, were largely unaware of the requirements, whereas specialists had a general understanding, but may have been confused as to some details.

More fundamentally, some staff had the mistaken understanding that awarding a grant meant that FS should take a “hands off” approach and that FS staff had no right or authority to require grant recipients to comply with specific rules and requirements. These staff viewed FS as merely serving as a pass-through entity and assumed grant recipients would comply

¹¹ FS Handbook 1509.11, Chapter 10, Section 15.6, October 20, 2009.

¹² Per FS Handbook 1509.11, Chapter 10, Section 17, October 20, 2009, the minimum requirements needed to obtain a FS Grant and Agreement Specialist Level II certification include 136 hours of core training classes (e.g., appropriations law, OMB cost principles, etc.) and 32 hours of elective courses (e.g., contract law, NEPA, etc.).

with the terms of their grant agreements. For instance, during our review, we learned that some program managers had not visited the grant recipients or their project sites.

When we discussed this knowledge gap with FS officials at the national office, they expressed concern about the staffs' lack of qualifications, confused oversight roles, and "hands off" attitudes. They agreed that FS' grant policies and procedures needed improvement, that FS staff needed to be adequately trained to perform their oversight roles, and that FS grant recipients needed to better understand their own roles and responsibilities. The officials further stated that, although specialists were subject to specific grant training requirements, in recent years this training had emphasized contract administration, rather than grant administration, suggesting that a shift in training focus was necessary. They said that FS had lost grant expertise in the last several years, due to retirements, and expressed concerns that it might now lack the in-house expertise to conduct in-depth financial assessments.

After our discussions, FS officials immediately took steps to present a nationwide grant training webinar to approximately 1,200 grant recipients and FS staff. The webinar provided important information and identified that many of those attending the webinar (both grant recipients and FS staff) lacked a basic understanding of Federal financial requirements. For example, after the webinar, attendees were allowed to submit additional questions to FS grant staff in writing. Many of the attendees did not understand the type of documentation grant recipients needed to support salary charges and other expenditures charged to grants. Other attendees did not understand that FS grant funds had to be separately tracked and accounted for, not commingled with other grants received. While the initial webinar was a positive step, FS must do more to address its knowledge gaps, clarify its guidance, and strengthen its controls.

For pre-award assessments, FS should modify its guidance to clearly identify and explain the pre-assessment responsibilities of program managers and specialists. The guidance should further provide structure for the assessments by requiring applicants to answer a series of questions, such as whether the applicant will track the use and receipt of individual grant funds separately. Only those applications with acceptable policies and procedures should be further considered for grants. Answers should be confirmed by interviewing the grant recipients in-depth about their financial processes, and conducting financial reviews of written processes and procedures to confirm the applicant's financial controls are actually operating as represented.

Like the pre-award assessments, post-award monitoring should be conducted by staff qualified to assess compliance with Federal financial requirements. Qualification should be based on the receipt of ongoing, relevant training. When conducting the monitoring, staff should follow certain steps, such as verifying that grant recipients are maintaining accurate accounting records and adequate support for expenditures. Financial monitoring reviews should occur early in the

grant period to identify potential financial compliance problems as soon as possible, and should also take into account the grant recipient's monitoring of its sub-grant recipients.¹³

During our review, some recipients complained that FS program managers could not answer their financial compliance questions and that the grant recipients did not know who else to contact to get the required assistance. To help prevent grant compliance problems before they occur, FS needs to better communicate Federal grant requirements to recipients and its staff. FS should continue its proactive work, presenting webinars on common grant requirements. FS should also consider establishing additional communication channels, such as an internet site with information about key financial requirements, and a more efficient way for recipients to obtain responses to their grant-related questions. Finally, to address the "hands off" impression certain FS staff had about their grant oversight responsibilities, FS should provide training or policy direction that clearly explains their responsibilities over Federal funds.

Recommendation 1

Provide training or policy direction to all employees who work on grants that clearly explains their responsibility for ensuring Federal grant funds are used appropriately and in accordance with applicable laws and regulations.

Agency Response

FS concurs with this recommendation. FS is in the process of updating the Grants Management Handbook (Chapter 20 of the Forest Service Directive 1509.11). This update will include specific language describing the responsibilities of program managers, grants management specialists, signatory officials, financial management, and agency auditors in ensuring Federal grant funds are used appropriately and in accordance with applicable laws and regulations. In addition, the agency is developing a training module specifically designed for program managers that will be available for self-study through AgLearn, and will contain a module on financial assistance. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

¹³ Sub-grant recipients are non-Federal entities that are awarded FS grant funds through the prime recipient. Sub-grant recipients typically receive a grant from the prime recipient to support a portion of the project work the prime recipient funded with the FS grant. Prime recipients are responsible for monitoring their sub-recipients' grant related activities and expenditures and for ensuring that they comply with Federal requirements.

Recommendation 2

Assess the skills and expertise needed to effectively evaluate FS grant recipients' financial accounting processes and controls, and staff grant oversight positions with appropriately qualified personnel.

Agency Response

FS concurs with this recommendation. The agency's Office of Audit & Assurance (A&A) has re-aligned their auditing staff to provide the necessary skills and expertise to assist in evaluating FS grant recipients' financial accounting processes and controls and conduct ongoing and periodic audit reviews (in conjunction with applicable program reviews, as appropriate). Their focus will be on grantees' financial reports, accounting records, and records of equipment purchased with grant funds. They will work in conjunction with agency staff who oversee grants – program managers and grants specialists. FS Grants Management Handbook will be updated to reflect these new A&A roles and responsibilities. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 3

Clarify the roles and responsibilities of FS G&A specialists and program managers, so that both positions clearly understand the nature and scope of their required grant oversight and monitoring responsibilities.

Agency Response

FS concurs with this recommendation. FS is in the process of updating the Grants Management Handbook (Chapter 20 of FS Directive 1509.11). This update will include specific language describing the roles and responsibilities of FS grant and agreement specialists, so that both positions clearly understand the nature and scope of their required grant oversight and monitoring responsibilities. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 4

Provide training to G&A specialists, program managers, and other appropriate FS staff to ensure that they have the needed knowledge and skills to perform their respective oversight

responsibilities. The training should cover the pre-award financial assessments and post-award financial monitoring of Federal grants.

Agency Response

FS concurs with this recommendation. In response to the Fast Report recommendation issued May 5, 2011, the agency conducted training via webinar in December 2011 that reached approximately 1,200 grant recipients and agency staff, as well as three trainings conducted by an outside contractor in September and October of 2011 that reached over 200 grant recipients and agency staff. The training provided by the outside contractor consisted of two sessions, the first focused on cost principles and the second focused on grants management and oversight in general, including pre-award financial assessments and post-award financial monitoring. To further focus on pre-award financial assessments and post-award financial monitoring, the agency will continue to provide specific training on these topics as part of the annual AQM Acquisition Community Training (called “ACT III” training) required for grants and agreement specialists and open to program managers. The ACT III training is the current on-line webinar training that will continue to be available over the remainder of the fiscal year. FS’ estimated completion date for this action is January 30, 2014.

OIG Position

We accept FS’ management decision on this recommendation.

Recommendation 5

Modify existing direction to require that the pre-award financial assessments be conducted by the G&A specialists or other FS staff properly trained and qualified to effectively conduct these type of reviews. The direction should also provide additional guidance on conducting the reviews to ensure that only qualified applicants are considered for FS grants.

Agency Response

FS concurs with this recommendation. The agency issued a letter on July 14, 2011, reiterating the roles and responsibilities for pre- and post-award assessments and stressing the importance of such meetings to ensure recipient financial viability and awareness of terms and conditions. Further, the letter emphasized new direction requiring Grants Management Specialists to use a FS developed questionnaire entitled, “Questionnaire for Review of Applicant’s Financial Strengths and Organization Capabilities, ” to assess a new recipient’s financial strength and capability prior to accepting Federal Financial Assistance awards. The Handbook will be revised to include reference to the standardized questionnaire. The Agency will also require the Grants Management Specialist to coordinate the pre-award financial assessments. FS will update the Grants & Agreements Handbook, FSH 1509.11 to include this requirement and will state that FS pre-award meetings and financial assessments are essential when a grantee has not previously received an award from FS or is an infrequent grantee. The agency does not conduct these types

of meetings and assessments prior to selection, but does so prior to award to ensure the best qualified grantees. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify how it will ensure its existing grantees are in compliance with Federal requirements since the questionnaire FS developed is primarily intended for new applicants and is only optional for existing grantees. As was previously noted in the finding, of the \$92 million in unallowable and questioned costs we identified in our audit, the entire amount was associated with non-compliant activities of FS grant recipients that had previously received FS funds, some for decades.

Recommendation 6

Modify existing direction to require that the post-award financial monitoring be conducted by the G&A specialists or other FS staff properly trained and qualified to effectively conduct this type of review. The direction should also provide additional guidance on when to conduct the reviews, how to ensure grant recipients comply with OMB requirements, and how to monitor sub-grantees.

Agency Response

FS concurs with this recommendation. The Agency will require the Grants Management Specialist or Program Manager, as appropriate, to coordinate a post-award meeting with new or infrequent grant recipients of FS funds. FS will update the Grants & Agreements Handbook, FSH 1509.11, Chapter 20 to include this requirement. In addition, the Handbook will be updated to include guidance on topics to be addressed at post-award meetings. This includes: (1) terms and conditions of the award document; (2) review and discussion of OMB Circulars applicable to the award; (3) reporting requirements; (4) record keeping; (5) payment policies and procedures, and (6) programmatic expectations and milestones. The Handbook will be updated to require a summary of this meeting to be placed in the official grant file; the summary will include a list of attendees and topics discussed. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We do not accept management decision for this recommendation. In its written response to the official draft report, FS addresses the pre-award meeting, not post-award financial monitoring discussed in the finding. To reach management decision on this recommendation, FS needs to modify its existing direction regarding post-award financial monitoring to require that it be conducted by FS staff properly trained and qualified to effectively conduct the reviews and to provide additional guidance on when to conduct the reviews, how to ensure grant recipients comply with OMB requirements, and how to monitor sub-grantees.

Recommendation 7

Provide periodic direction and information to both current and future FS grant recipients, using methods such as structured webinars, an internet site with information about key financial requirements, and a more efficient way for recipients to obtain responses to their grant-related questions to ensure that they understand and have the tools to comply with Federal grant requirements.

Agency Response

FS concurs with this recommendation. FS will continue to provide periodic direction and information to current and future FS grant recipients through the current website (which contains a link to archived webinars), future webinars, regionally-specific training and workshops, one-on-one technical assistance, and other methods, as appropriate. Each grantee receives the contact information for their applicable Program Specialist and Grant and Agreement Specialist as part of the award letter, which helps to ensure timely responses to grant-related questions. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

Section 2: Control Weaknesses Affected Both Recovery Act- and Non-Recovery Act-funded Grants

Finding 2: Grant Recipients Charged FS Recovery Act and Non-Recovery Act Grants Nearly \$63 Million in Questioned Costs

Ten of the 20 grants we reviewed involved grant recipients that did not properly manage the Recovery Act grant funds they received. The 10 grant recipients were responsible for more than \$190 million in FS Recovery Act and non-Recovery Act funds;¹⁴ however, they did not have acceptable financial management systems, including processes to: (1) adequately account for grant funds, (2) properly allocate and support salary costs, (3) competitively bid work to be performed, and (4) properly charge indirect costs. In each case, the grant recipients claimed the inadequate financial controls existed because they were either unaware of or misinterpreted Federal requirements. FS did not sufficiently communicate the requirements to the grant recipients or review the grant recipients' financial management systems prior to awarding the grant funds or monitor their financial activities after the grants were awarded. Rather, FS referenced the applicable Federal regulations and cost principles in the grant documents and relied on grant recipients to read, understand, and comply with those requirements. In total, grant recipients charged their FS Recovery Act- and non-Recovery Act-funded grants nearly \$63 million in questioned costs. Many grants were subject to multiple problems listed above; however, in our recommendations to FS, we have only counted their questioned cost amounts once.

Federal regulations require that grant recipients establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program requirements. They also require that (1) all costs charged to Federal grants be tracked and accounted for separately from other funds and be adequately supported, (2) grant funds be charged only for activities that support the purpose of the grant, (3) costs allocable to a particular grant not be shifted to other Federal awards for any reason, and (4) payments made to grant recipients on a reimbursement basis be based on the expenses actually paid.¹⁵ For indirect costs charged to a grant, recipients must obtain an approved indirect cost rate (or cost allocation plan) to support the

¹⁴ This amount consists of the grant recipients' FS non-Federal WFM Recovery Act-funded grants and open FS non-Recovery Act-funded grants identified during our review.

¹⁵ The cited provisions of the Code of Federal Regulations (CFR) include: 7 CFR 3015, Uniform Federal Assistance Regulations, August 14, 2000; 7 CFR 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, January 1, 2003; 2 CFR 225, Cost Principles for State, Local, and Indian Tribal Governments, August 31, 2005; 2 CFR 230, Cost Principles for Non-Profit Organizations, May 10, 2004; 2 CFR 215, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, September 30, 1999; and OMB Circular No. A-133, Compliance Supplement, Section 3-C-1, March 2011.

charges. Finally, Federal regulations require that grant and sub-grant recipient procurements be conducted in a full and open competitive manner.¹⁶

Inadequate Accounting

Five of the 20 grants reviewed involved grant recipients that did not properly account for the Recovery Act grant funds they received. Specifically, we found that grant recipients (1) commingled Recovery Act-funded grant costs, non-Recovery Act-funded grant costs, and general operating costs, and then allocated the commingled costs to FS Recovery Act- and non-Recovery Act-funded grants; (2) shifted costs between Recovery Act- and non-Recovery Act-funded grants; (3) routinely requested reimbursement for costs prior to paying the related expenditures; and (4) had control deficiencies that prevented adequate oversight of Federal funds. As a result, grant recipients charged their FS Recovery Act- and non-Recovery Act-funded grants close to \$22 million in questioned costs. The most widespread problems occurred at the Alabama Forestry Commission (the Commission), a State agency, and the Nevada Fire Safe Council (the Council), a non-profit organization.

The Commission's accounting system did not comply with Federal regulations governing grant funds, as it commingled the majority of its Recovery Act-funded grant costs, non-Recovery Act-funded grant costs, and general operating costs into one single commingled "pool" of costs, and then allocated the commingled costs to both its FS Recovery Act- and non-Recovery Act-funded grants.¹⁷ This occurred because the Commission's Chief Financial Officer (CFO), who designed the accounting system,¹⁸ was either unaware of, or misinterpreted, Federal grant accounting requirements.¹⁹ Further, FS officials did not identify the issues with the accounting system because FS did not perform its required financial assessments before it awarded the grants to the Commission.²⁰ We reported this condition in a November 2011 Fast Report.²¹ After the Fast Report was issued, FS postponed any further grant reimbursements and grant awards to the Commission until it corrected the reported deficiencies.

¹⁶ 2 CFR 215, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, September 30, 1999, and 7 CFR 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, January 1, 2003. (Note: Although 7 CFR 3016.36(a) allows States to follow their own policies and procedures for procurements, none of the grant recipients discussed in this finding that lacked competitive procurements was a State agency.)

¹⁷ OMB Circular No. 09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, April 3, 2009.

¹⁸ The State agency had no procedural manuals, instructions, or other written guidance to document the accounting processes it used. The Commission's accounting procedures had to be verbally explained to us by the CFO.

¹⁹ 2 CFR 225, Cost Principles for State, Local, and Indian Tribal Government, August 31, 2005.

²⁰ FS Handbook 1509.11, Chapter 20, Section 23.52, October 20, 2009, required FS staff to evaluate the State agency's financial accounting systems to ensure that it had adequate accounting policies and procedures (including the ability to separately track project costs on a grant-by-grant basis), and that the grant applicant's financial strength and capability were acceptable (October 20, 2009).

²¹ *State Agency Charged Recovery Act Grants and Non-Recovery Act Grants \$14.4 Million in Unallowable Costs - The Recovery Act—Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(7), November 23, 2011. This report is available at www.usda.gov/oig.

We also identified commingling and other accounting deficiencies at the Council. We discussed the commingling and other accounting deficiencies with the Council's Board of Directors, who asserted that they had no knowledge of these problems because the Council's executive director, who no longer works for the Council, had been solely responsible for managing the Council's finances. The executive director had the power to access, sign, and record blank checks; deposit and remove Federal funds from grant accounts without a higher authority's knowledge; and control payroll, among other key functions. The executive director also routinely used FS grant funds to pay for unallowable expenses that included duplicate payments, unsupported grant project costs,²² and overhead costs.²³ Further, we determined that the executive director requested reimbursements from the Council's Recovery Act- and non-Recovery Act-funded grants prior to paying the related expenses, and then used the funds to pay non-grant costs. We reported several of these issues in a January 2012 Fast Report.²⁴ The Council's Board acknowledged that these accounting practices were not acceptable and expressed their intention to immediately strengthen their internal accounting controls to correct the deficiencies. After our Fast Report was issued, FS froze the Council's funding, and the United States Department of Interior initiated its own audit to determine whether its grant funds were also similarly mishandled. Since its main source of revenue was grant funds, the Council has since stopped operations.

We also identified other instances where grant recipients sought reimbursement for their grant expenditures before the expenditures were actually paid. For example, the Wyoming State Forestry Division reimbursed a county sub-grant recipient over \$500,000 without requesting adequate documentation to show that the sub-recipient had actually paid the expenses before reimbursing the sub-recipient. In another case, Colorado State University administered a grant for a sub-recipient—a privately-owned sawmill—and did not request adequate documentation to show that the sawmill had actually paid the expenses before reimbursing the sawmill. The sawmill used Recovery Act funds to pay non-authorized costs and directed funds to an affiliated mill in another State. We reported this condition in our October 2011 Fast Report.²⁵ In its responses to our Fast Reports, FS generally agreed with our recommendations.

Subsequent to our Fast Reports, we found that the San Bernardino National Forest Association (the Association), a non-profit organization, inappropriately shifted approximately \$650,000 in costs from its FS Recovery Act-funded grant to a FS non-Recovery Act-funded grant to overcome funding deficiencies. The Association's accounting staff stated that they were aware of prohibitions against shifting of costs, but did not think their actions constituted cost shifting

²² These unsupported costs included mechanical and hand crew treatments for hazardous fuels removal, project oversight, consultants, public relations, advertising, and database management.

²³ These costs included rent, utilities, bookkeeping services, and workers compensation insurance that were not allocated to the FS grants based on the benefits received.

²⁴ *Grant Recipient Had Inadequate Controls to Account for Its Recovery Act Grants –The Recovery Act–Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(10), January 4, 2012. This report is available at www.usda.gov/oig.

²⁵ *Grant Recipient Used Recovery Act Funds for Unauthorized Purposes –The Recovery Act–Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(8), October 21, 2011. This report is available at www.usda.gov/oig.

because they viewed the Recovery Act- and non-Recovery Act-funded grants as a single source of Federal money. When we discussed this issue with FS staff, they expressed surprise and immediately began to implement corrective actions to adjust the cost-shifted funds and apply expenditures to the proper grants. We are recommending that FS withhold future grant reimbursements to the Association until the organization discontinues and resolves its cost shifting issues.

Unsupported Salaries

For 9 of the 20 Recovery Act-funded grants reviewed, we found that 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. For example, some of the grant recipients either used predetermined percentages or other unallowable methodologies to allocate their salary expenses to the grants. FS staff did not independently validate whether grant recipients' salary allocation processes were adequate. Due to FS' lack of oversight, grant recipients reviewed charged nearly \$19 million in unsupported salary costs. Given that this control deficiency affected all active FS grants (both Recovery Act- and non-Recovery Act-funded) at the eight grant recipients, the total unsupported salary amount could reach \$50 million.²⁶

Federal cost principles require that salary expenses 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.²⁷ 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.

FS' pre-award procedures do not ensure that grant recipients' financial accounting systems and processes are sufficient to appropriately allocate personnel costs. While FS staff are required to evaluate grant applicants' financial accounting systems²⁸ and processes, current FS policies do not direct staff to specifically determine that grant recipients have acceptable financial systems and processes in place to properly account for their salary costs, even though salaries are often a grant's largest expenditure.

The cases of Santa Ana Pueblo, San Bernardino County Fire Protection District, California Department of Forestry and Fire Protection, Georgia Forestry Commission, and New Mexico Energy, Minerals and Natural Resources Department were included in a May 2011 Fast Report on improper salary charges to grants.²⁹ For example, we found that the California Department of

²⁶ There were only eight grant recipients for the nine Recovery Act-funded grants reviewed because one of the grant recipients received two of the nine Recovery Act grants.

²⁷ A personnel activity report is used to account for an employee's time when the employee is working on more than one activity or project.

²⁸ FS Handbook 1509.11, Chapter 20, Section 23.52, October 20, 2009.

²⁹ *Salaries Totaling Almost \$400,000 Charged to Recovery Act Grants Reviewed Were Unsupported—The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(6), May 5, 2011. This report is available at www.usda.gov/oig.

Forestry and Fire Protection charged the salary expense of two full-time foresters (nearly \$210,000 per year) to a Recovery Act-funded grant, even though these two foresters spent a significant amount of time (30 to 50 percent) performing work unrelated to the grant.

Subsequent to our Fast Report, we identified similar issues at Nevada Fire Safe Council, San Bernardino National Forest Association, and Alabama Forestry Commission. The Commission charged salary costs to its FS grants that were unallowable because the salary charges did not reflect the actual hours employees worked on grant-funded activities. The Council also charged unallowable salary costs because it did not properly track or support the salary costs charged to its grants. The Association also had inappropriate accounting processes, designating certain salary costs as always being allocated and charged to either a Recovery Act-funded grant or a non-Recovery Act-funded grant—regardless of how the costs were actually incurred. For example, the entire salary of a project supervisor was charged to the Recovery Act-funded grant, even though the supervisor was also working on non-Recovery Act-funded grant projects.

In its May 2011 written response to the Fast Report, FS generally concurred with our recommendations, stating that it would conduct its own review of grant recipients and address any issues, in accordance with OMB Circulars and Federal cost accounting principles. For the three grant recipients we identified after the Fast Report was issued, we are recommending that FS recover the unsupported salary costs already charged to its FS Recovery Act-funded grants and non-Recovery Act-funded grants. We are also recommending that FS postpone further salary reimbursements until the recipients are able to fully comply with OMB requirements.

Non-Competitive Procurements

In 4 of the 20 grants we reviewed, Recovery Act-funded grant and sub-grant recipients incurred excessive and unsupported costs by procuring more than \$6 million of goods and services from non-competitively selected contractors.³⁰ This occurred because FS did not adequately oversee grant recipients' procurement policies, procedures, and sub-grantee monitoring, and FS did not adequately examine proposed project costs. Of the \$6 million total in non-competitive procurements, we determined that about \$4.5 million of the charges were unallowable or potentially unallowable because they represented excessive, unnecessary, or unsupported costs.

Federal regulations require that grant and sub-grant recipient procurements be conducted in a full and open competitive manner.³¹ Grant and sub-grant recipients must document why contractors are selected or rejected, the basis for the contract price, and fully justify non-competitive

³⁰ These grant recipients were responsible for more than \$27 million of FS Recovery Act funds and \$60 million of non-Recovery Act funds.

³¹ 2 CFR 215, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, September 30, 1999, and 7 CFR 3016, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, January 1, 2003. (Note: Although 7 CFR 3016.36(a) allows States to follow their own policies and procedures for procurements, none of the grant recipients discussed in this finding that lacked competitive procurements was a State agency.)

procurements whenever they occur.³² In addition, the Recovery Act emphasized the need to use competitive procurements to the maximum extent possible and directed OIG and other audit functions to review the use of Recovery Act funds to ensure competition requirements had been met and to identify instances of wasteful spending, poor contract or grant management, and other abuses.³³ Grant recipients must also ensure that their sub-grant recipients are aware of and adhere to these procurement requirements.³⁴

Our November 2011 Fast Report detailed the issues surrounding procurements made by a county sub-grantee of the Wyoming State Forestry Division.³⁵ We found that three contractors, who were members of the county committee responsible for proposing WFM projects, controlled the selection process in their favor, resulting in a non-competitive environment. Over a 3-year period, all FS grant-funded WFM projects were both approved by this local committee and carried out by the three contractors on the committee. We recommended that FS postpone further reimbursements until the recipients strengthen controls and recover funds if the grantee or sub-grantee cannot verify support for project costs.

After we issued the Fast Report, we identified three more cases of non-competitive procurement involving the Nevada Fire Safe Council, Colorado State University, and New Mexico Energy, Minerals and Natural Resources Department. We found that Colorado State University did not monitor its sub-recipients' procurement practices. This enabled one of its sub-recipients to non-competitively award \$1 million in contracts, using Recovery Act grant funds. The New Mexico Energy, Minerals and Natural Resources Department allowed its sub-recipient to noncompetitively select a contractor to provide consulting services, based on personal preference, without requiring it to either advertise the grant-funded contract work or secure the most reasonable price.

We also reviewed the Nevada Fire Safe Council's \$3.6 million Recovery Act-funded grant in response to a hotline complaint. Our review substantiated the allegations, finding that the Council was not conducting a fair and competitive procurement process when hiring contractors, and that certain contractors were charging excessive prices. For example, for certain projects, the Council automatically awarded the contract to the local fire protection districts, without allowing other viable contractors in the area to compete for the work. The Council also allowed the local fire protection districts to establish whatever price they chose, without evaluating whether their fees were reasonable for the work being performed. The fire protection districts charged between \$3,000 and \$7,900 per acre—up to eight times higher than the rate that FS paid for similar work—because they used professional firefighters to do the work, even though nearly 80 percent of the land clearing projects did not involve burning. At the same time, the districts also included unnecessary charges that had no relationship to the fuels reduction work they were hired to perform, such as firefighter training and firefighter equipment depreciation.

³² 7 CFR 3016.36(b)(9), March 11, 1998, and 2 CFR 215.46, September 30, 1999.

³³ Public Law 111-5, American Recovery and Reinvestment Act of 2009, February 17, 2009.

³⁴ 7 CFR 3016.37(a) (2), March 11, 1998, and 7 CFR 3019.51, August 24, 1995.

³⁵ *Recovery Act Grant Recipient Did Not Have Controls in Place to Properly Administer Sub-Awarded Funds - The Recovery Act - Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(9), November 1, 2011. This report is available at www.usda.gov/oig.

In its November 2011 written response to the Fast Report, FS generally concurred with our recommendations. For two of the grant recipients (Colorado State University and the New Mexico Energy, Minerals and Natural Resources Department), we identified after the Fast Report was issued, we are recommending that FS require the recipients to enhance their sub-grant and contract administration controls, and ensure that they meet Federal requirements. The remaining grant recipient (Nevada Fire Safe Council) did not have any sub-recipients for the grant reviewed.

Unauthorized Indirect Costs

In 2 of the 20 Recovery Act-funded grants we reviewed, grant recipients charged their FS grants for indirect costs—costs which cannot be directly linked to a specific grant activity—that were unauthorized and unsupported. The two grant recipients did not obtain an indirect cost rate approved by the Government, but, rather, allocated their indirect costs using an inappropriate allocation methodology or unverified, temporary cost rate. This occurred because FS staff did not ensure the recipients’ systems for handling indirect costs were compliant with OMB and FS requirements, and that these costs were accurately presented in grant proposals and budgets. As a result, we questioned more than \$16.5 million in indirect costs.

OMB standards identify the types of direct and indirect costs for which grant recipients can claim reimbursement. Direct costs are those that can be specifically linked to a specific cost objective (i.e., the cost to purchase equipment or supplies needed to accomplish the project). Indirect costs are those that support the organization as a whole, but cannot be directly linked to a specific cost objective (i.e., rent or accounting). Recipients seeking reimbursement for indirect costs must prepare an indirect cost rate proposal or a cost allocation plan, which determines what proportions of the organization’s general administration costs a grant should bear. The proposal must include financial documentation and analysis, showing that the desired indirect cost rate is supported, accurate, and reasonable.³⁶ When approved, the rate or allocation plan is formalized in a written agreement and must be used to support every Federal grant the organization receives.³⁷ FS is responsible for verifying that grant recipients’ claimed indirect costs are sufficiently supported and allowable.³⁸

We found that the Alabama Forestry Commission and San Bernardino National Forest Association both charged indirect costs to their FS Recovery Act- and non-Recovery Act-funded grants without a final approved indirect cost rate.³⁹ As described previously, the Alabama

³⁶ 2 CFR 230, Cost Principles for Non-Profit Organizations, August 31, 2005.

³⁷ To simplify relations between Federal grantees and awarding agencies, OMB established the cognizant agency concept, under which a single Federal agency represents all others in dealing with grantees in common areas. In this case, the cognizant agency reviews and approves grantees’ indirect cost rates. Approved rates must be accepted by other agencies, unless specific program regulations restrict the recovery of indirect costs.

³⁸ FS Handbook 1509.11, Chapter 20, Section 23.52, October 20, 2009.

³⁹ The grants FS awarded the Alabama Forestry Commission did not include indirect costs. The Commission identified all of its grant charges to FS as “direct” costs in both its grant budgets and reimbursement requests. However, due to the manner in which the Commission commingled and then allocated its costs to its FS grants, most of the Commission’s grant charges were, in effect, “indirect” costs.

Forestry Commission had several serious issues with its financial management and accounting systems. These included using an unauthorized process to allocate indirect costs to both its FS Recovery Act- and non-Recovery Act-funded grants over a 2.5 year period.⁴⁰ We detailed these issues in our November 2011 Fast Report.

We also found issues with the San Bernardino National Forest Association, as FS was allowing it to claim indirect costs, totaling over \$2 million, using a provisional indirect cost rate. Provisional indirect cost rates are temporary rates that are typically used by new grant recipients that have not previously received Federal grants. After receiving the temporary rate, the recipient is then expected to obtain a final approved indirect cost rate, based on its actual indirect costs. At the time of our review, the Association had been operating for 5 years (since 2005) and previously received three FS grants (non-Recovery Act-related), and was also claiming indirect costs for those grants. Thus, FS allowed the Association to claim indirect costs without a final approved indirect cost rate plan and final audited rate for several years. We reported this condition in a January 2011 Fast Report.⁴¹ In its written responses to our Fast Reports, FS generally concurred with our recommendations, which were meant to remedy those specific situations.

Fast Report Recommendations

For the Fast Report Recommendations pertaining to this Finding, see Exhibit D, Recommendations 19 through 51.

New Recommendations

Recommendation 8

Recover from the Alabama Forestry Commission the \$6,408,863 in unsupported salary costs we identified after the issuance of Fast Report 6 that were charged to its non-Recovery Act-funded grants still active at the time of our audit.

Agency Response

FS generally concurs with this recommendation. The agency is currently conducting a review of the Alabama Forestry Commission's grant charges for the period of performance from 2007 through 2012. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.

⁴⁰ The time period covers 2.5 fiscal years from October 1, 2008, through April 27, 2011, and encompasses the fiscal years that contained active Recovery Act-funded grant reimbursements.

⁴¹ *Grant Recipient Did Not Have an Approved Indirect Cost Rate – The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(4), January 19, 2011. This report is available at www.usda.gov/oig.

OIG Position

We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the Alabama Forestry Commission that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 225. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

Recommendation 9

Recover from the San Bernardino National Forest Association the \$7,064 in unsupported salary costs we identified after the issuance of Fast Report 6 that were charged to its FS Recovery Act-funded grant reviewed.

Agency Response

FS generally concurs with this recommendation. The agency will conduct a review of FS grant's expenditures. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.

OIG Position

We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the San Bernardino National Forest Association that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 230. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

Recommendation 10

Recover from the San Bernardino National Forest Association the \$2,726,888 in unsupported salary costs we identified after the issuance of Fast Report 6 that were charged to its other active FS Recovery Act- and non-Recovery Act-funded grants.

Agency Response

FS generally concurs with this recommendation. The agency will conduct a review of FS' grants expenditures. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.

OIG Position

We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the San Bernardino National Forest Association that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 230. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

Recommendation 11

Recover from the Nevada Fire Safe Council the additional \$3,651,019 in unallowable costs we identified after the issuance of Fast Report 10. The additional amount questioned was for costs that were determined duplicative, inappropriately allocated (e.g., overhead costs), and unsupported (e.g., salaries).

Agency Response

FS generally concurs with this recommendation. The agency is conducting a review of the Nevada Fire Safe Council grant charges for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.

OIG Position

We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the Nevada Fire Safe Council that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 230. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

Recommendation 12

Postpone further salary reimbursements to the Alabama Forestry Commission, San Bernardino National Forest Association, and Nevada Fire Safe Council 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. Also, postpone further grant reimbursements to the Nevada Fire Safe Council until it is able to provide FS with documentation and assurance that it has developed procurement policies and procedures that comply with applicable OMB requirements, and to the San Bernardino National Forest Association until it provides FS with the necessary assurances that it has discontinued the cost shifting activities discussed in this report and that previously shifted costs have been properly corrected and resolved.

Agency Response

FS concurs with this recommendation. FS has received written assurance from both the Alabama Forestry Commission and the San Bernardino National Forest Association documenting their compliance with the OMB salary cost allocation requirements. Additionally, the San Bernardino National Forest is working with the San Bernardino National Forest Association to properly correct costs to both the Recovery Act and non-Recovery Act grants. FS will continue to postpone any reimbursement to the Nevada Fire Safe Council. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 13

Direct the New Mexico Energy, Minerals and Natural Resources Department and Colorado State University to establish controls over their sub-grant administration that reflect Federal requirements. These controls should be established through written policies and procedures that include, but are not limited to, their responsibility to manage the day-to-day operation of their sub-grant recipients to assure that sub-recipients have financial accounting systems and controls that comply with Federal standards, that sub-recipients have competitive project selection and procurement policies, and that applicable Federal cost allowability requirements (e.g., OMB Circular Nos. A-87 and A-21) are met.

Agency Response

FS concurs with this recommendation. FS has reviewed the financial management systems for New Mexico Energy, Minerals, and Natural Resources Department. Numerous corrective actions have already been implemented, including written policy and procedures for monitoring of sub-recipients, financial assessment of sub-recipients, and competitive procurement procedures for single source, limited and full competition. FS will assess these corrective actions and provide additional direction on these issues, if necessary. FS will work with Colorado State University to ensure that written sub-recipient controls cover the requirements in the applicable OMB Circulars, located in 2 CFR 215 and 2 CFR 220. FS' estimated completion for this action is March 30, 2014.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 14

Direct the appropriate FS staff to assess the New Mexico Energy, Minerals and Natural Resources Department's and Colorado State University's documented controls over sub-grant administration to ensure they reflect Federal requirements. During this assessment, FS staff should confirm that the recipients' procedures ensure costs associated with FS grant-funded procurements are reasonable, necessary, properly supported, and conform to applicable OMB cost principles.

Agency Response

FS concurs with this recommendation. As part of the review that will be completed for Recommendation 23 from Fast Report 6, FS staff will confirm the recipients' written sub-recipient controls and policies meet the requirements in the applicable OMB Circulars and that their procedures ensure costs associated with FS grant-funded procurements are reasonable, necessary, properly supported and conform to applicable OMB cost principles. FS' estimated completion date for this action is March 30, 2014.

OIG Position

We do not accept management decision for this recommendation. The review referred to in Recommendation 23 from Fast Report 6 does not include Colorado State University. To reach management decision on this recommendation, FS needs to specify that it will also include Colorado State University in its review.

Section 3: Grants Did Not Meet Recovery Act Requirements

Finding 3: Grant Recipients Did Not Justify Equipment Purchases Totaling Over \$3.5 Million

Five of the 20 non-Federal WFM grants we reviewed did not adequately justify equipment purchases when using Recovery Act funds. The EROCs and regions responsible for reviewing the grant applications either lacked specific guidance on how to handle equipment purchases at the time the grants were made, or, for later grants, were unaware that the national office had updated its Recovery Act guidance to specifically address how to handle equipment purchases. FS staff approved the grant awards, even though the narratives lacked the required justifications for the equipment purchases. As a result, we questioned purchases (both actual and planned) totaling more than \$3.5 million.

At the onset of the Recovery Act, FS had deferred to the standard OMB guidance regarding equipment purchases for non-Federal entities, which required only that FS approve the equipment purchases in advance.⁴² The FS handbook also stated that the lease versus buy option be considered and evaluated, but did not require that this analysis be included in the grant agreement.⁴³ Not until August 14, 2009, when FS issued updated Recovery Act program guidance, did the agency address the accountability and transparency requirements of the Recovery Act for equipment purchases by non-Federal entities.⁴⁴ The updated program guidance included a requirement for non-Federal entities purchasing capital assets (i.e., equipment) to include a grant narrative addressing, at a minimum, why the equipment was necessary for project success and why renting or leasing the equipment was not a viable option, and providing estimates of the equipment's future operating and maintenance costs.⁴⁵

We reviewed Florida's largest grant project, totaling \$6.3 million. The purpose of the grant was to conduct hazardous fuels mitigation work throughout the State of Florida. As part of the grant, Florida purchased \$2.3 million worth of equipment (over a third of the funds it received) to support its efforts. Of the total, Florida purchased five masticators⁴⁶ for \$1,155,000 (valued at \$146,000 each) and five trucks to transport the masticators (valued at \$85,000 each). However, neither the grant application nor the grant justified the need for the equipment to complete the work on the Recovery Act-funded grant. As for the other purchases, which directly related to the Recovery Act-funded work, Florida provided no justification why purchasing this equipment was more cost effective than renting or leasing it. When we brought this issue to the attention of FS, the national office promptly issued additional guidance regarding equipment acquired under

⁴² 2 CFR 225, Cost Principles for State, Local, and Indian Tribal Governments, August 31, 2005.

⁴³ FS Handbook 1509.11, Chapter 23.52 – Review of the Application Package, October 20, 2009.

⁴⁴ FY 2009/2010 American Recovery and Reinvestment Act, USDA Forest Service, Chapter 4 – Accountability and Transparency, pages 4-21 and 4-25, August 14, 2009.

⁴⁵ 7 CFR 3016.3, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, January 1, 2003, defines equipment as nonexpendable personal property valued at over \$5,000 per unit with a useful life of more than 1 year.

⁴⁶ A forestry tool used to shred standing small trees and downed woody materials.

grant awards. However, the new guidance did not specify what documentation is needed to provide support for an equipment purchase decision. We reported this issue in a September 2010 Fast Report.⁴⁷

Following our Fast Report, we found four additional instances of Recovery Act-funded grant recipients who did not provide the required justification for their equipment purchases. In these instances, at the time the grants were made, both the EROCs and regions were unaware that the FS national office had updated the Recovery Act guidance. These cases involved the Florida Division of Forestry, the North Carolina Department of Natural Resources, the South Carolina Forestry Commission, and the New Mexico Energy, Minerals and Natural Resources Department. In total, their unjustified equipment purchases were valued at over \$1.2 million.

For example, the Florida Division of Forestry did not explain in its narrative why it needed seed collection implements to accomplish the Recovery Act-funded work. Since it made no mention of the equipment, it also did not justify why the implements needed to be purchased instead of leased. Below is a list of the equipment that FS approved for the four grant recipients to purchase without the required justifications:

Other Equipment Purchases Without Required Justifications		
Grant Recipient	Equipment Type	Cost
Florida Division of Forestry	Seed roller packer ⁴⁸ and two seed collection implements	\$33,000
North Carolina Department of Natural Resources	Seed planting system	\$111,000
South Carolina Forestry Commission	Multiple trucks, a Bobcat, trailer, and seeder	\$235,000
New Mexico Energy, Minerals and Natural Resources Department	Masticator, self-loading truck, skidder, feller/buncher, and brush cutter	\$856,600
Total		\$1,235,600

Subsequent to our fieldwork, the New Mexico recipient submitted additional documents to justify its purchases. We reviewed the justification and concluded that it adequately explained why the \$856,600 in equipment purchases was needed for the Recovery Act-funded project work; however, it did not include the required analysis showing why the equipment needed to be purchased, rather than rented or leased.

⁴⁷ *State of Florida Needs to Be Required to Justify Equipment Purchases – The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(2), September 1, 2010. This report is available at www.usda.gov/oig.

⁴⁸ Seed roller packers press the seed into the soil, thereby improving germination rates.

In its September 2010 written response to the Fast Report on the initial Florida case, FS concurred with each of our recommendations. To address the new issues, we are also recommending that FS obtain the necessary documentation to support equipment purchases from each of the four organizations. In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, we are also recommending that FS disallow the cost and recover any reimbursements made.

Fast Report Recommendations

For the Fast Report Recommendations pertaining to this Finding, see Exhibit D, Recommendations 52 through 55.

New Recommendations

Recommendation 15

If not already acquired in response to Recommendation 54 (Fast Report 2, Recommendation 3), obtain from the State of New Mexico, the North Carolina Department of Natural Resources, the South Carolina Forestry Commission, and the Florida Department of Agriculture justification for the equipment they purchased with FS Recovery Act grant funds.

Agency Response

FS concurs with this audit recommendation. Corrective action has been implemented and FS requests closure of this recommendation. FS obtained documentation from the State of New Mexico supporting its decision to purchase the equipment. FS also assessed each equipment line item in the applicable Recovery Act grants to the North Carolina Department of Natural Resources, the South Carolina Forestry Commission, and the Florida Department of Agriculture and ensured that government-owned property was not available prior to considering approval of purchases/leases of similar equipment under a recipient-proposed financial plan. Program managers provided written certification that the purchase of equipment was necessary and that it would be used primarily or exclusively for the project to which it will be charged. The Program Manager's certification or approval and the grantee's equipment justification is documented in the agency's electronic grants management system as well as the official grant file.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 16

In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, disallow the cost and recover any reimbursements already made to the grant recipient for the equipment.

Agency Response

FS concurs with this audit recommendation. Corrective action has been implemented and FS requests closure of this recommendation. FS has determined from reviewing the justifications provided for Recommendation 15, that it was appropriate to purchase the equipment; it is not necessary to disallow or recover any reimbursements made to the grant recipients for equipment.

OIG Position

We accept FS' management decision on this recommendation.

Finding 4: Grant Recipients Did Not Meet Economic Stimulus Intent of the Recovery Act

For 3 of the 20 grants we reviewed, the grant recipients did not effectively use the approximately \$7 million in Recovery Act grant funds they received to meet the economic stimulus objectives of the Recovery Act. Although their grant-funded project work met natural resource objectives, it did not meet the economic stimulus objectives because the grant recipients continued to conduct the same amount of work as before they received the Recovery Act funds. Specifically, one of the grant recipients was postponing the start of its Recovery Act-funded projects until it completed its non-Recovery Act-funded work, while another did the opposite. The third recipient replaced non-Recovery Act funds it had already allocated with newly-received Recovery Act funds. This occurred because FS staff did not specifically inform those receiving Recovery Act-funded grants that they were expected to meet the economic stimulus intent of the Recovery Act. The FS program manager responsible for two of the grants assumed that the grant recipients understood that Recovery Act-funded project work should be done concurrently with work in progress 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. In each case, the grant recipient did not create additional jobs or maintain any jobs at risk of being lost.

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.⁴⁹ In implementing the Recovery Act, Federal agencies were directed to create policies and procedures to ensure 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.⁵⁰ 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.

Most of the grant recipients who received FS non-Federal WFM Recovery Act-funded grants were already engaged in similar non-Recovery Act-funded work. Consequently, the only way the existing grant recipients could meet the economic stimulus objective was if they performed both new Recovery Act-funded work and previously-funded grant work simultaneously. Grant recipients without the ability to perform projects concurrently would not meet FS' award requirement of funding projects that created or retained the greatest number of jobs in the shortest amount of time. However, some organizations that ultimately received grants either lacked the ability to do the work concurrently or chose not to.

⁴⁹ Public Law 111-5, American Recovery and Reinvestment Act of 2009, Section 3(a), February 17, 2009, 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."

⁵⁰ White House Memorandum for the Heads of Executive Departments and Agencies, "Ensuring Responsible Spending of Recovery Act Funds," March 20, 2009.

For instance, the San Bernardino County Fire Protection District (the District) received over \$3 million in Recovery Act funds in July 2009. At the time of the award, the District was engaged in work funded by over \$33 million in other Federal awards. FS approved the District's Recovery Act-funded project because it could be immediately implemented. However, we determined that the District had still not begun the Recovery Act-funded project work 8 months after receiving its award. Similar delays occurred at the San Bernardino National Forest Association. Another case involved a sub-grant recipient, the Alabama Department of Conservation and Natural Resources. The sub-grant recipient simply used the FS Recovery Act funds to replace the non-Recovery Act grant funds it had already received, and did not initiate or expand existing project work. We reported these issues in a June 2011 Fast Report⁵¹ and FS concurred with each of our recommendations.

Fast Report Recommendations

For the Fast Report Recommendations pertaining to this Finding, see Exhibit D, Recommendations 56 through 58.

⁵¹ *Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act – The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(5), June 2, 2011. This report is available at www.usda.gov/oig.

Finding 5: FS Did Not Ensure States Selected Grant Projects That Met Recovery Act Requirements

FS approved certain non-Federal WFM projects for Statewide work, and States themselves were left to determine where the project work would ultimately occur. Our review of a judgmental sample of 10 Statewide grants found that for 3 of the grants, States used less than 19 percent of the \$2.6 million in Recovery Act funds reviewed in the most economically distressed counties with the greatest environmental risk. For the remaining seven grants, we could not determine where the funds would ultimately be spent because either the State had yet to decide the location of the project work, or the grantee had yet to provide project data at the close of fieldwork. While the States were given authority to determine how the funds would be used, the signed grant agreements did not require that the States follow any particular methodology when selecting projects. FS did not require States to use a scoring system, since FS had already taken into consideration the overall economic and environmental health of each State when awarding the Statewide Recovery Act-funded grants. As a result, the States ultimately selected project locations based primarily on natural resource needs. States did not target the Recovery Act funds to those counties that best met both Recovery Act objectives (i.e., benefiting the most economically distressed areas as well as achieving the greatest natural resource benefits).

The Recovery Act required that funds be used to preserve and create jobs and promote economic recovery. It also required that the funds be invested for purposes, such as environmental protection, that will provide long-term economic benefits.⁵² To meet this mandate, FS' national office established a scoring system to determine the most suitable areas to fund Recovery Act projects. FS developed a combined composite score for each project that considered both the economic and ecological importance of each project. The combined composite score was the primary factor in the selection of projects. For Statewide projects, the national office assigned the States an overall combined composite score by using the median of the State's individual county scores.

Where FS' overall methodology provided a reasonable basis on which to select projects that best met the Recovery Act's objectives, there was nothing comparable at the State level. Although the States' overall median combined composite scores reflected the States' overall economic distress and environmental risk, they did not necessarily reflect that of each individual county. FS' written description for the Statewide grants—which made up 28 percent of the \$214 million total for FS grants, or \$59 million—only specified that project work would be carried out on State and private lands and that the States would determine where the project work would ultimately occur.

Overall, only two of the grants addressed both economic distress and natural resource needs in their project selection criteria, whereas eight addressed only natural resource needs. As a result, we questioned whether the States actually used approximately \$27 million in FS Recovery Act grant funds awarded through the grants in those counties with the highest degree of economic distress. FS field staff in the Southern Region informed us that they did not specifically evaluate

⁵² Public Law 111-5, American Recovery and Reinvestment Act of 2009, Section 3(a) and (b), February 17, 2009.

Statewide non-Federal WFM Recovery Act-funded grant requests to ensure proposed projects also benefitted economically distressed areas. Instead, they awarded funds to the States based solely on general descriptions of the resource work the States expected to accomplish (e.g., the number of acres of invasive plants States intended to treat). FS field staff believed that grants awarded based on the State's general resource needs were appropriate because the projects had been approved by the national office on a Statewide basis. However, the national office selection process included both economic and ecological factors, while the States' selection process did not.

We reported this issue in a February 2011 Fast Report, recommending that FS follow up with States on projects not yet started to strengthen the selection criteria.⁵³ In its March 2011 written response, FS concurred with each of our recommendations.

Fast Report Recommendations

For the Fast Report Recommendations pertaining to this Finding, see Exhibit D, Recommendations 59 through 61.

⁵³ *States Not Selecting Projects Meeting Recovery Act Requirements – The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands*, 08703-05-SF(3), February 24, 2011. This report is available at www.usda.gov/oig.

Finding 6: Grant Agreements Did Not Contain Required Recovery Act Provisions

In the FS templates used nationwide for non-Federal WFM grants, a number of necessary Recovery Act provisions were either inadequately stated or altogether absent. The national office official responsible for developing the grant templates initially believed that referring in general to the Recovery Act and other relevant Federal regulations was sufficient. As a result, EROC staff used these flawed templates to execute awards. At the Southwest EROC, we identified three awards that lacked the necessary language. A grant template that does not reflect all the required Recovery Act provisions could significantly impact FS' ability to enforce grantees' compliance.

The Recovery Act requires changes to the normal way FS issues grant and agreement awards, including the need to add special terms and provisions to ensure enhanced accountability and transparency of Recovery Act funds. OMB directed Federal agencies to include in their grant agreements specific terms and conditions to implement the provisions of the Recovery Act.⁵⁴

The Southwest EROC used the standard grant and agreement templates from FS' internal system, I-Web, as the basis for every FS Recovery Act award.⁵⁵ These templates lacked a number of required or necessary Recovery Act provisions. As a result, when we examined three executed awards from the Southwest EROC (totaling about \$10.5 million), we found that they were also flawed. For instance, the grant template did not include language explaining that:

- Award and sub-award recipients are responsible for complying with all applicable Recovery Act requirements;
- Recipients are required to closely monitor and report Recovery Act-funded program activities and accomplishments;
- FS has the right to terminate awards for non-compliance or non-performance;
- OIG has access to recipient and sub-recipient records; and
- Reprisals against whistleblowers are prohibited.

Without including these important statements in the agreements, FS' authority to ensure grantee compliance is at risk. We reported these conditions in a March 2010 Fast Report, and recommended that FS modify its templates.⁵⁶ In its March 2010 written response, FS agreed

⁵⁴ OMB Memorandum M-09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, Sections 5.9 and 6.4, April 3, 2009.

⁵⁵ I-Web is a web-enabled General Support System that hosts a suite of database applications for various FS business areas.

⁵⁶ *The Recovery Act – Forest Service Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands* 08703-05-SF(1), March 11, 2010. This report is available at www.usda.gov/oig.

with our recommendation. After FS modified its templates, we found several grants that had been executed prior to the modification. Some of these grants involve long-term projects as long as 5 years. We are now making additional recommendations that FS review and, if needed, amend active agreements to ensure that each incorporates proper language.

Fast Report Recommendation

For the Fast Report Recommendation pertaining to this Finding, see Exhibit D, Recommendation 62.

New Recommendations

Recommendation 17

Review all Recovery Act grant agreements still active to determine whether the required Recovery Act provisions were included.

Agency Response

FS concurs with this audit recommendation. Corrective action has been implemented and FS requests closure of this recommendation. As of January 31, 2013 an NRM review of all Recovery Act grants was completed to ensure Recovery Act provisions were added to each grant. The date of the modification for each agreement and the revised provisions are documented in the NRM system.

OIG Position

We accept FS' management decision on this recommendation.

Recommendation 18

For those Recovery Act grant agreements that did not contain the required Recovery Act provisions, amend the grant agreements to include them.

Agency Response

FS concurs with this audit recommendation. Corrective action has already been implemented and FS requests closure of this recommendation. As of January 31, 2013 an NRM review of all Recovery Act grants was completed to ensure Recovery Act provisions were added to each grant. The date of the modification for each agreement and the revised provisions are documented in the NRM system.

OIG Position

We accept FS' management decision on this recommendation.

Scope and Methodology

We conducted a nationwide review of FS' non-Federal WFM projects that were funded by the Recovery Act during FYs 2009 and 2010. The 152 projects were awarded through 172 grants and 10 agreements to State and local government entities, as well as universities, tribal governments, and non-profit organizations.

We statistically selected eight of the projects for review, based on the project amount. Six of the projects were selected from those projects with amounts that were at least \$5 million, while the other two projects were selected from those projects with amounts that were less than \$5 million. See Exhibit E for further details on our sampling methodology. An additional project was judgmentally selected, primarily because the project work was already completed prior to our audit. We also reviewed two whistleblower complaints alleging misuse of Recovery Act funds. The 11 projects reviewed consisted of 20 grants, totaling more than \$50 million.

To accomplish our audit objectives, we performed audit work at three EROCs and four FS regional offices. We visited the offices of 30 grant recipients (16 prime recipients and 14 sub-recipients).^{57,58} We also visited the project sites for 26 of the grant recipients. See Exhibit B for a complete list of audit sites visited. We performed our audit work from September 2009 through August 2012.

In developing the findings for this report, we performed the following steps and procedures:

At selected EROCs (see Exhibit B), we:

- Reviewed pertinent laws, regulations, policies, and procedures governing grants for non-Federal WFM projects, including the Recovery Act, OMB and FS guidance, and the Federal Acquisition Regulation.
- Interviewed key EROC staff, including the lead for grants, to determine their roles and responsibilities pertaining to the Recovery Act.
- Ascertained how the Recovery Act-funded grants are processed, using the standard grant templates in I-Web.
- Ascertained the EROCs' controls to ensure that Recovery Act funds were adequately tracked and expenditures were appropriately authorized and supported.

⁵⁷ Prime recipients are non-Federal entities that receive grants directly from FS. Sub-recipients are non-Federal entities that are awarded FS grant funds through a sub-grant from the prime recipient. Sub-recipients typically receive a grant from the prime recipient to support a portion of the project work the prime recipient funded with the FS grant. The number of grant recipients exceeded the number of projects selected for review because some of the selected projects had multiple prime recipients and/or sub-recipients.

⁵⁸ One of the grant recipients is both a prime recipient and a sub-recipient and is, therefore, counted twice.

- Ascertained the EROCs' controls to ensure that grants were administered and projects monitored in accordance with Recovery Act requirements.
- Ascertained EROCs' compliance with Recovery Act reporting requirements.

At selected FS regional offices (see Exhibit B), we:

- Interviewed key regional office staff, including the Recovery Act coordinator, to determine their roles and responsibilities pertaining to the Recovery Act.
- Evaluated the regional offices' project selection process, and whether the selected projects met program and Recovery Act eligibility requirements.
- Ascertained the regional offices' controls to ensure that Recovery Act funds were adequately tracked and expenditures were appropriately authorized and supported.
- Ascertained the regional offices' controls to ensure that grants were administered and projects monitored in accordance with Recovery Act requirements.

At selected grant recipients (see Exhibit B), we:

- Interviewed prime recipient grant officials and sub-grant officials to gain an understanding of their accounting processes used to track and account for the grant funds.
- Reviewed prime grant recipients' and sub-grant recipients' financial records, assessed the controls over their accounting systems, and examined their project documentation to determine whether the Recovery Act funds were used for their intended purpose.
- Reviewed the project files containing the grant agreement for the selected projects to determine if FS awarded and administered the grants in compliance with Federal requirements.

At selected project sites, we:

- Visited the sites to assess the status of the work performed.
- Interviewed FS project coordinators to determine the controls in place to track and monitor project status and contractor performance.
- Interviewed the contractors to ascertain their controls to ensure compliance with Recovery Act requirements.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

ARRA	American Recovery and Reinvestment Act
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
EROC	Economic Recovery Operations Center
FY	Fiscal Year
FS	Forest Service
G&A	Grants and Agreements
NEPA	National Environmental Policy Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
WFM	Wildland Fire Management

Exhibit A: Summary of Monetary Results

This exhibit lists findings and recommendations that had a monetary result, and includes the type and amount of the monetary result.

Finding Number	Recommendation Number	Description	Amount	Category
2	8	Unsupported Salaries <i>[Alabama Forestry Commission]</i>	\$6,408,863 ⁵⁹	Questioned Costs, Recovery Recommended
2	9	Unsupported Salaries <i>[San Bernardino National Forest Association]</i>	\$7,064	Unsupported Costs, Recovery Recommended
2	10	Unsupported Salaries <i>[San Bernardino National Forest Association]</i>	\$2,726,888	Unsupported Costs, Recovery Recommended
2	11	Inadequate Accounting (Commingling, Improper Reimbursements, etc.)/ Unsupported Salaries <i>[Nevada Fire Safe Council]</i>	\$3,651,019 ⁶⁰	Questioned Costs, Recovery Recommended
2	12	Inadequate Accounting (Cost Shifting) <i>[San Bernardino National Forest Association]</i>	\$409,951 ⁶¹	Questioned Costs, No Recovery

⁵⁹ Amount questioned was actually \$18,299,605; however, \$11,890,742 of this amount was already recommended for recovery in Recommendation 31.

⁶⁰ Amount questioned was actually \$6,254,179; however, \$2,603,160 of this amount was already recommended for recovery in Recommendation 47.

⁶¹ Amount questioned was actually \$649,499; however, \$239,548 of this amount was already recommended for recovery in Recommendations 9 (\$7,064), 10 (\$108,701) and 21 (\$123,783).

2	13	<p>Non-Competitive Procurements</p> <p><i>[Nevada Fire Safe Council (\$4,039,768), Wyoming State Forestry Division (\$450,000), Colorado State University(\$1,000,000); New Mexico Energy, Minerals & Natural Resources Department (\$512,177)]</i></p>	\$1,050,000 ⁶²	Questioned Costs, No Recovery
3	15	<p>Grant Recipients Did Not Justify Equipment Purchases</p> <p><i>[Florida Division of Forestry (\$33,000); North Carolina Department of Environment and Natural Resources (\$111,000); South Carolina Forestry Commission (\$235,000), New Mexico Energy, Minerals & Natural Resources Department (\$856,600)]</i></p>	\$1,235,600	Unsupported Costs, Recovery Recommended
2	21 <i>Fast Report 4 Recommendation 3</i>	<p>Unapproved Indirect Cost Rate</p> <p><i>[San Bernardino National Forest Association (\$2,128,028) and Alabama Forestry Commission (\$14,375,457)]</i></p>	\$2,128,028 ⁶³	Questioned Costs, No Recovery
2	22 <i>Fast Report 6 Recommendation 1</i>	<p>Unsupported Salaries</p> <p><i>[California Department of Forestry and Fire Protection (\$190,626); Georgia Forestry Commission (\$82,258); San Bernardino County Fire Protection District (\$73,678); and Pueblo of Santa Ana (\$43,131)]</i></p>	\$389,693	Unsupported Costs, Recovery Recommended
2	23 <i>Fast Report 6 Recommendation 2</i>	<p>Unsupported Salaries</p> <p><i>[California Department of Forestry and Fire Protection (\$19,127,875); Georgia Forestry Commission (\$215,342); New Mexico Energy, Minerals, and Natural Resource Department (\$8,275,425); and Pueblo of Santa Ana \$449,141]</i></p>	\$28,067,783	Unsupported Costs, Recovery Recommended

⁶² Amount questioned was actually \$6,001,945; however, \$4,951,945 of this amount was already recommended for recovery in Recommendations 11 and 47 (\$4,039,768), 15 (\$462,177) and 46 (\$450,000).

⁶³ Amount questioned was actually \$16,503,485; however, \$14,375,457 of this amount was already recommended for recovery in Recommendation 31.

2	31 <i>Fast Report 7 Recommendation 1</i>	Inadequate Accounting (Commingling) <i>[Alabama Forestry Commission]</i>	\$14,375,457	Questioned Costs, Recovery Recommended
2	39 <i>Fast Report 8 Recommendation 1</i>	Inadequate Accounting (Improper Reimbursements) <i>[Colorado State University]</i>	\$69,879	Questioned Costs, Recovery Recommended
2	41 <i>Fast Report 8 Recommendation 3</i>	Inadequate Accounting (Improper Reimbursements) <i>[Colorado State University]</i>	\$58,731	Questioned Costs, No Recovery
2	43 <i>Fast Report 9 Recommendation 1</i>	Inadequate Accounting (Improper Reimbursements) <i>[Wyoming State Forestry Division]</i>	\$62,235 ⁶⁴	Questioned Costs, No Recovery
2	46 <i>Fast Report 9 Recommendation 4</i>	Non-Competitive Procurements <i>[Wyoming State Forestry Division]</i>	\$450,000	Questioned Costs, Recovery Recommended
2	47 <i>Fast Report 10 Recommendation 1</i>	Inadequate Accounting (Commingling) <i>[Nevada Fire Safe Council]</i>	\$2,603,160	Questioned Costs, Recovery Recommended
3	52 <i>Fast Report 2 Recommendation 1</i>	Grant Recipients Did Not Justify Equipment Purchases <i>[Florida Division of Forestry]</i>	\$1,155,000	Unsupported Costs, Recovery Recommended
3	54 <i>Fast Report 2 Recommendation 3</i>	Grant Recipients Did Not Justify Equipment Purchases <i>[Florida Division of Forestry]</i>	\$1,145,000	Questioned Costs, No Recovery ⁶⁵

⁶⁴ Amount questioned was actually \$512,235; however, \$450,000 of this amount was already recommended for recovery in Recommendation 46.

⁶⁵ No recovery is recommended since FS took immediate corrective action once informed of the problem.

4	56 <i>Fast Report 5 Recommendation 1</i>	Grant Recipients Not Meeting Economic Stimulus Intent of Recovery Act <i>[San Bernardino County Fire Protection District (\$3,150,000); San Bernardino National Forest Association (\$3,777,000); Alabama Department of Conservation and Natural Resources (\$48,000)]</i>	\$5,460,423 ⁶⁶	FTBPTBU: Management or Operating Improvement/ Savings
5	60 <i>Fast Report 3 Recommendation 2</i>	States Not Selecting Grant Projects That Meet Recovery Act Requirements <i>[Alabama Forestry Commission (\$12,578,000); Florida Division of Forestry (\$8,936,000); Georgia Forestry Commission (\$1,755,500); North Carolina Department of Environment and Natural Resources (\$1,742,000); South Carolina Forestry Commission (\$1,755,500)]</i>	\$20,318,774 ⁶⁷	FTBPTBU: Management or Operating Improvement/ Savings
TOTAL MONETARY RESULTS			\$91,773,548	

⁶⁶ Amount questioned was actually \$6,975,000; however, \$1,514,577 of this amount was already recommended for recovery in Recommendations 9 (\$7,064), 10 (\$804,936), 12 (\$159,899), 21 (\$469,000), and 22 (\$73,678).

⁶⁷ Amount questioned was actually \$26,767,000; however, \$6,448,226 of this amount was already recommended for recovery in Recommendations 15 (\$379,000), 22 (\$82,258), 23 (\$215,342), 31 (\$3,423,626), 52 (\$1,155,000), 54 (\$1,145,000), and 56 (\$48,000).

Exhibit B: Audit Sites Visited

This exhibit shows the name and location of all sites visited, including FS offices and the offices of prime and sub-recipients of the FS grants reviewed.

AUDIT SITE	LOCATION
<p><u>Intermountain EROC</u></p> <p><u>Region 2</u> Rocky Mountain Regional Office</p> <p><u>Prime Recipients</u> Colorado State University Wyoming State Forestry Division</p> <p><u>Sub-Recipients</u> Intermountain Resources Delta Timber Company Rocky Mountain Timber Products City of Steamboat Springs El Paso County Office of Emergency Management City and County of Denver, Parks and Recreation Teton County</p>	<p>Golden, CO</p> <p>Golden, CO</p> <p>Fort Collins, CO Cheyenne, WY</p> <p>Montrose, CO Delta, CO Del Norte, CO Steamboat Springs, CO Colorado Springs, CO Denver, CO Jackson Hole, WY</p>
<p><u>East EROC</u></p> <p><u>Region 8</u> Southern Regional Office</p> <p><u>Prime Recipients</u> Alabama Forestry Commission Florida Division of Forestry Georgia Forestry Commission North Carolina Department of Environment and Natural Resources South Carolina Forestry Commission</p> <p><u>Sub-Recipients</u> The Longleaf Alliance Alabama Department of Conservation and Natural Resources Larson and McGowin North Carolina State University Georgia Department of Natural Resources The University of Georgia, College of Agricultural and Environmental Sciences</p>	<p>Atlanta, GA</p> <p>Atlanta, GA</p> <p>Montgomery, AL Tallahassee, FL Dry Branch, GA Raleigh, NC</p> <p>Columbia, SC</p> <p>Andalusia, AL Montgomery, AL Mobile, AL Raleigh, NC Social Circle, GA Tifton, GA</p>

<p><u>Southwest EROC</u></p> <p><u>Region 3</u> Southwestern Regional Office</p> <p><u>Prime Recipient</u> New Mexico Energy, Minerals and Natural Resources Department Taos Pueblo Pueblo of Santa Ana Pueblo of Santa Clara</p> <p><u>Sub-recipient</u> Pueblo of Santa Clara</p> <p><u>Region 5</u> Pacific Southwest Regional Office</p> <p><u>Prime Recipient</u> California Department of Forestry and Fire Protection Riverside County Fire Department San Bernardino County Fire Protection District San Bernardino National Forest Association Nevada Fire Safe Council</p>	<p>Vallejo, CA</p> <p>Albuquerque, NM</p> <p>Santa Fe, NM</p> <p>Taos, NM Santa Ana Pueblo, NM Española, NM</p> <p>Espanola, NM</p> <p>Vallejo, CA</p> <p>San Bernardino, CA Idyllwild, CA San Bernardino, CA San Bernardino, CA Carson City, NV</p>
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Exhibit C: Grant Recipients Reviewed With Monetary Findings

This exhibit shows those grant recipients we reviewed that resulted in monetary findings.

Recipient Name	Finding Number				Total
	2	3	4	5	
Region 2					
Intermountain Resources	\$128,610				\$128,610
City of Steamboat Springs	\$1,000,000				\$1,000,000
Teton County	\$512,235				\$512,235
Region 3					
New Mexico Energy, Minerals, and Natural Resources Department	\$8,275,425				\$8,275,425
Pueblo of Santa Clara	\$50,000	\$856,600			\$906,600
Pueblo of Santa Ana	\$492,272				\$492,272
Region 5					
California Department of Forestry and Fire Protection	\$19,318,501				\$19,318,501
San Bernardino National Forest Association	\$5,271,931		\$2,336,101		\$7,608,032
San Bernardino County Fire Protection District	\$73,678		\$3,076,322		\$3,150,000
Nevada Fire Safe Council	\$6,254,179				\$6,254,179
Region 8					
Alabama Forestry Commission	\$20,784,320			\$9,106,374	\$29,890,694
Florida Division of Forestry		\$2,333,000		\$6,603,000	\$8,936,000
North Carolina Department of Environment and Natural Resources		\$111,000		\$1,631,000	\$1,742,000
South Carolina Forestry Commission		\$235,000		\$1,520,500	\$1,755,500

Georgia Forestry Commission	\$297,600			\$1,457,900	\$1,755,500
Alabama Department of Conservation and Natural Resources			\$48,000		\$48,000
Total	\$62,458,751	\$3,535,600	\$5,460,423	\$20,318,774	\$91,773,548

Exhibit D: Fast Report Recommendations

This exhibit lists the recommendations from the 10 Fast Reports issued during the audit pertaining to Findings 2 through 6 of this report. It also includes the Agency Response to each recommendation and the OIG position.

FINDING 2
Recommendation 19 (<i>Fast Report 4, Recommendation 1</i>)
Instruct FS grant managers to review all existing non-Federal WFM Recovery Act and non-Recovery Act-funded grants to ensure that grant recipients claiming indirect costs have the OMB required approvals and supporting documentation.
Agency Response
In its February 4, 2011, response to our Fast Report, FS agreed with this recommendation stating 100 percent of Recovery Act WFM grants have been reviewed and appropriate follow-up is being conducted on the results. In order to expedite the non-Recovery Act grant's review, FS will look at each recipient's indirect cost rate documentation. Guidance will be provided to all FS Grant Officials by March 4, 2011, requiring review of WFM non-Recovery Act funded grants by recipient to ensure approved indirect cost rates are in place.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 20 (<i>Fast Report 4, Recommendation 2</i>)
For those grants where FS determines recipients' indirect cost rates have not been formally reviewed and approved, direct grant recipients to prepare and submit to FS' financial service center an indirect cost rate plan for FS review and approval. In the interim, FS should not allow grant recipients to claim indirect costs until FS approves their indirect cost rates.
Agency Response
In its follow-up response to the Fast Report, FS stated that it will complete a review of its grantees and ensure all FS recipients have approved indirect cost rates in place by March 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 21 (<i>Fast Report 4, Recommendation 3</i>)
Review indirect costs previously claimed by grant recipients lacking approved rates and disallow any indirect costs FS determines to be ineligible, inaccurate, or unsupported.

Agency Response
In its follow-up response to the Fast Report, FS stated that it will review the indirect costs previously claimed by those grant recipients lacking approved rates and disallow any indirect costs determined to be ineligible, inaccurate or unsupported. FS' estimated completion date for this action is January 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 22 (<i>Fast Report 6, Recommendation 1</i>)
Recover from the six grant recipients [California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo] the \$389,747 [\$389,693] ⁶⁸ in unsupported salary costs already charged to the FS Recovery Act grants reviewed.
Agency Response
In its follow-up response to the Fast Report, FS stated that it has conducted a review of the \$389,747 in unsupported salary costs charged to the FS Recovery Act grants reviewed for the six grant recipients (California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo). In October of 2012, FS briefed the OIG audit team on the results, and an agreement was made to bill the following recipients for the unsupported amounts that totaled \$371,188. The Tribal government was able to produce additional supporting documentation for \$18,559, thereby reducing the initial unsupported salary costs from \$389,747 to \$371,188. FS has initiated the recovery process to recover the unsupported salary costs. FS' estimated completion date for this action is January 30, 2014.
OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to provide OIG a copy of the bill for collection for the \$371,188 owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 23 (<i>Fast Report 6, Recommendation 2</i>)
Recover from the six grant recipients [California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo] the \$28 million in unsupported salary costs already charged to the other FS Recovery Act and non-Recovery Act-funded grants still active at the time of our audit.

⁶⁸ The amount cited in the Fast Report should have been \$389,693. The difference was due to a data entry error.

Agency Response
In its follow-up response to the Fast Report, FS stated that it will conduct a review of the \$28 million in salary costs for the six grant recipients and will take appropriate action to recover unsupported salary costs identified through this review, as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.
OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the six grant recipients that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 225. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 24 (<i>Fast Report 6, Recommendation 3</i>)
Postpone further salary reimbursements to all grant recipients with unsupported salary costs in Recommendations 1 and 2 [Recommendations 22 and 23 of this exhibit] 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.
Agency Response
In its follow-up response to the Fast Report, FS stated that it will ensure that certification of compliance with OMB cost allocation for salary is in place for all grantees that have a salary component in their grant. If a grantee is unable or refuses to certify compliance, FS will postpone reimbursement for salary expenses. FS' estimated completion date for this action is March 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision for this recommendation.
Recommendation 25 (<i>Fast Report 6, Recommendation 4</i>)
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.
Agency Response
In its follow-up response to the Fast Report, FS stated that for those grantees unable to certify compliance with OMB cost allocation requirements for salary costs, FS will review the active Recovery Act and non-Recovery Act-funded grants. FS' estimated completion date for this action is March 30, 2014.

OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 26 (<i>Fast Report 6, Recommendation 5</i>)
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.
Agency Response
In its May 18, 2011, response to our Fast Report, FS stated that 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 Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 27 (<i>Fast Report 6, Recommendation 6</i>)
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.
Agency Response
In its May 18, 2011, response to our Fast Report, FS stated that 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 Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 28 (<i>Fast Report 6, Recommendation 7</i>)
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.
Agency Response
In its follow-up response to the Fast Report, FS stated that it is updating and formalizing the form, <i>Accounting System Financial Capability Questionnaire</i> . The form will be completed by applicants

<p>selected for funding, and reviewed by G&A Specialists or FS financial management staff prior to award to ensure financial accounting processes meet OMB's cost allocation requirements. FS' estimated completion date for this action is March 30, 2014.</p>
<p>OIG Position</p>
<p>Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.</p>
<p>Recommendation 29 (<i>Fast Report 6, Recommendation 8</i>)</p>
<p>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.</p>
<p>Agency Response</p>
<p>In its May 18, 2011, response to our Fast Report, FS stated that based on the results of the reviews conducted by 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.</p>
<p>OIG Position</p>
<p>Based on the response to the Fast Report, we accept FS' management decision on this recommendation.</p>
<p>Recommendation 30 (<i>Fast Report 6, Recommendation 9</i>)</p>
<p>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.</p>
<p>Agency Response</p>
<p>FS concurs with this recommendation. The agency issued a letter on July 14, 2011, reiterating the roles and responsibilities for pre- and post-award assessments and stressing the importance of such meetings to ensure recipient financial viability and awareness of terms and conditions. Further, the letter emphasized new direction requiring Grants Management Specialists to use a FS developed questionnaire entitled, "Questionnaire for Review of Applicant's Financial Strengths and Organization Capabilities," to assess a new recipient's financial strength and capability prior to accepting Federal Financial Assistance awards. The Handbook will be revised to include reference to the standardized questionnaire. The Agency will also require the Grants Management Specialist to coordinate the pre-award financial assessments. FS will update the Grants & Agreements Handbook, FSH 1509.11 to include this requirement and will state that FS pre-award meetings and financial assessments are essential when a grantee has not previously received an award from FS or is an infrequent grantee. The agency does not conduct these types of meetings and assessments prior to selection, but does so prior to award to ensure the best qualified grantees. FS' estimated completion date for this action is March 30, 2014.</p>

OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify how it will ensure its existing grantees are in compliance with Federal requirements since the questionnaire FS developed is primarily intended for new applicants and is only optional for existing grantees. As was previously noted in the finding, of the \$92 million in unallowable and questioned costs we identified in our audit, the entire amount was associated with non-compliant activities of FS grant recipients that had previously received FS funds, some for decades.
Recommendation 31 (<i>Fast Report 7, Recommendation 1</i>)
Recover from the State agency [Alabama Forestry Commission] the \$14.4 million in unallowable costs for the FS Recovery Act and non-Recovery Act-funded grants reviewed and any additional unallowable amount accrued since April 27, 2011.
Agency Response
In its follow-up response to the Fast Report, FS stated that it is conducting a review of the Alabama Forestry Commission's grant charges for the period of performance from 2007 through 2012. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.
OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the Alabama Forestry Commission that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 225. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 32 (<i>Fast Report 7, Recommendation 2</i>)
Postpone further grant reimbursements and grant awards to the State agency [Alabama Forestry Commission] until it provides the necessary assurances and documentation that it is able to fully comply with the OMB cost requirements and Federal regulations discussed in this report.
Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it will postpone further grant reimbursements and grant awards to the State agency until it provides assurances and documentation to FS that it is able to fully comply with OMB cost requirements and Federal regulations, except where there is documentation that funds are being delivered to a third party, such as a contract vendor or landowner, and the costs comply with OMB requirements and federal regulations. In such instances, the agency will continue reimbursements and awards because there is minimal risk of inappropriate reimbursement to the Alabama Forestry Commission. Supporting documentation of compliance is due to FS by February 29, 2012.

OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 33 (<i>Fast Report 7, Recommendation 3</i>)
Direct the State agency [Alabama Forestry Commission] to immediately stop (1) commingling FS grant funds with State funds, (2) using unapproved allocation processes to charge costs to its FS grants, and (3) charging indirect costs to FS grants using its current method.
Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it agrees with this recommendation and that AFC [Alabama Forestry Commission] should take appropriate actions in accordance with the applicable OMB Circulars that govern the administration of grants. This recommendation was addressed in a letter sent to the Alabama State Forester on December 9, 2011.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 34 (<i>Fast Report 7, Recommendation 4</i>)
If the State agency [Alabama Forestry Commission] wants to continue to charge indirect costs to its FS grants, direct the State agency to submit to FS an indirect cost rate proposal for FS review and approval. If the State agency elects to charge indirect costs using a cost allocation plan, direct the State agency to prepare and submit its cost allocation plan to HHS [U.S. Department of Health and Human Services] for formal review and approval.
Agency Response
In its follow-up response to the Fast Report, FS stated it will ensure that the indirect cost rate approved for AFC meets OMB requirements. For FY 2010, FS approved AFC's indirect cost rate proposal, after negotiating a 21.4 percent indirect cost rate. The FY 2011 and FY 2012 indirect cost rates were provisional and subject to further review. In mid-2012, AFC submitted an indirect cost rate proposal with a proposed rate of 133 percent. FS did not endorse, nor approve AFC's proposed indirect cost rate. In August 2012, AFC agreed to accept FS' proposed rate of 21.4 percent, which meets OMB requirements and in the future will comply with proposed OMB compliant indirect cost rates.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 35 (<i>Fast Report 7, Recommendation 5</i>)
Direct the State agency [Alabama Forestry Commission] to implement procedures that ensure all costs charged to FS grants are allocated and supported in accordance with Federal regulations and OMB requirements.

Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it issued a letter reminding AFC [Alabama Forestry Commission] of their responsibility to comply with applicable OMB Circulars that govern the administration of grants. The letter was sent to the Alabama State Forester on December 9, 2011.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 36 (<i>Fast Report 7, Recommendation 6</i>)
Direct the State agency [Alabama Forestry Commission] to document how it accounts for FS grant funds in its operating manuals. At a minimum, it should document its process for identifying and allocating both direct and indirect costs to Federal grants, how it accounts for and supports grant expenditures and disbursements, and how it reconciles grant costs and project accomplishments to grant approved budgets.
Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it issued a letter reminding AFC [Alabama Forestry Commission] of their responsibility to comply with applicable OMB Circulars that govern the administration of grants. The letter was sent to the Alabama State Forester on December 9, 2011.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 37 (<i>Fast Report 7, Recommendation 7</i>)
When the State agency [Alabama Forestry Commission] creates its new manuals, assess the Commission's financial accounting processes relating to grants. During the assessment, ensure the State agency has developed procedures to separately track and account for FS grant funds in compliance with OMB requirements. Also confirm that any indirect costs or allocation procedures used by the grant recipient comply with the indirect cost rate plans or cost allocation plans formally reviewed and approved by FS or HHS [U.S. Department of Health and Human Services]. Ensure the Commission corrects any deficiencies.
Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it agrees with this recommendation and will assess the State's processes relating to grants. This action will be completed by April 30, 2012.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 38 (<i>Fast Report 7, Recommendation 8</i>)
Perform periodic reviews to spot check the State agency's [Alabama Forestry Commission] financial accounting practices to ensure that the Commission is properly accounting for the FS grant funds in accordance with OMB requirements.
Agency Response
In its December 15, 2011, response to our Fast Report, FS stated that it agrees with this recommendation and will take appropriate action in accordance with applicable OMB Circular requirements. FS will conduct periodic reviews on AFC's [Alabama Forestry Commission] accounting practices to ensure continued compliance once recommendations 1 through 6 [Recommendations 31 through 36 of this exhibit] have been completed as of April 30, 2012.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 39 (<i>Fast Report 8, Recommendation 1</i>)
Recover from CSU [Colorado State University] the \$69,879 in Recovery Act grant funds the sub-recipient used for unauthorized purposes.
Agency Response
In its follow-up response to the Fast Report, FS stated that it had completed a review of Colorado State University (CSU) and the \$69,879 in Recovery Act grant funds the sub-recipient used for unauthorized purposes. FS is in the process of creating a bill for collection to recover from CSU those funds used for unauthorized purposes. FS' estimated completion date for this action is January 30, 2014.
OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to provide OIG a copy of the bill for collection for the \$69,879 owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 40 (<i>Fast Report 8, Recommendation 2</i>)
For all FS grants still active, require CSU [Colorado State University] to verify that sub-recipients actually paid the invoices they submitted for reimbursement, and that the grant funds were used for their intended purpose.
Agency Response
In its follow-up response to the Fast Report, FS stated that, through its review of active grants, it will verify that sub-recipients paid the invoices submitted for reimbursement and that the grant funds were used for the intended purpose. FS' estimated completion date for this action is March 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 41 (<i>Fast Report 8, Recommendation 3</i>)
In those instances where CSU [Colorado State University] determines that the invoices were not paid, or grant funds were used for an unauthorized purpose, require that CSU recover the grant funds from the sub-recipient.
Agency Response
In its follow-up response to the Fast Report, FS stated that it cannot require Colorado State University to recover from the sub-recipient the grant funds it claimed for unpaid invoices or used for unauthorized purposes. FS instead will recover the unauthorized expenditure amounts from Colorado State University (see Recommendation #39). FS' estimated completion date for this action is January 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 42 (<i>Fast Report 8, Recommendation 4</i>)
Instruct CSU [Colorado State University] to modify its policy to require that sub-recipients of Federal grant funds provide documentation showing that claimed costs, including invoices, have been paid before seeking reimbursement. If sub-recipients do not provide such documentation, CSU should withhold reimbursement.
Agency Response
In its follow-up response to the Fast Report, FS stated that under the OMB Circulars, grantees and sub-grantees may use either an accrual or cash accounting system. Bills are based on outlays or expenditures, defined in 2 CFR 215.2 as "charges made to the project or program. They may be reported on a cash or accrual basis. . . . on an accrual basis, outlays are the sum of cash disbursements for direct charges for goods and services, the amount of indirect expenses incurred . . . and the net increase (or decrease) in the amounts owed by the recipient for goods and service performed by employees, contractors, subrecipients and other payees." An invoice received by CSU from a sub-recipient that uses an accrual accounting system may include items which have been invoiced but not yet paid. Monitoring of sub-recipients by Colorado State University will validate actual payment of invoices through a review of the sub-recipients' financial management system (see Recommendation #40). FS will review Colorado State University's policies and procedures regarding sub-recipients to ensure they meet the requirements in the OMB Circulars. FS' estimated completion date for this action is March 30, 2014.
OIG Position
Based on its follow-up response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 43 (<i>Fast Report 9, Recommendation 1</i>)
Postpone further WSFD [Wyoming State Forestry Division] grant reimbursements associated with payments to sub-grant recipients until WSFD is able to provide FS with documentation and assurance that it can adequately assess and monitor its sub-grant recipients.

Agency Response
In its November 16, 2011, response to our Fast Report, FS agreed with this recommendation stating that it will send a letter to WSFD [Wyoming State Forestry Division] instructing them to provide documentation to FS by December 16, 2011, that WSFD can adequately assess and monitor its sub-recipients. The agency will discontinue reimbursing WSFD for payments to sub-recipients until the agency can review the documentation. If any issues are identified, the agency will manage them as applicable by OMB Circulars and federal cost accounting principles. These actions will be completed by January 31, 2012.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 44 (<i>Fast Report 9, Recommendation 2</i>)
Direct WSFD [Wyoming State Forestry Division] to establish controls over its sub-grant administration that reflect Federal requirements. These controls should be established through written policies and procedures that include, but are not limited to, WSFD's responsibility to manage the day-to-day operation of its sub-grant recipients' activities to assure that sub-recipients have financial accounting systems and controls that comply with Federal standards, that sub-recipients have competitive project selection and procurement policies, and that applicable Federal cost allowability requirements (e.g., OMB A-87) are met.
Agency Response
In its November 16, 2011, response to our Fast Report, FS agreed with this recommendation stating that it will send a letter to WSFD [Wyoming State Forestry Division] by November 30, 2011, instructing them to establish internal controls for sub-recipient administration in accordance with applicable OMB Circulars and federal cost accounting principles. WSFD will be instructed to provide copies of these controls to FS by January 31, 2012.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 45 (<i>Fast Report 9, Recommendation 3</i>)
Direct FS grant and agreement specialists to assess WSFD's [Wyoming State Forestry Division] documented controls over sub-grant administration to ensure they reflect Federal requirements. During this assessment the grant and agreement specialist should review WSFD's procedures to appropriately select and approve WFM projects. The grant and agreement specialist should also confirm that the procedures ensure costs associated with WFM projects are reasonable, necessary, and in accordance with OMB cost principles.
Agency Response
In its November 16, 2011, response to our Fast Report, FS stated that it will conduct a review over the WSFD [Wyoming State Forestry Division] newly established internal control requirements provided for sub-recipient administration to ensure they are in compliance with applicable OMB Circulars and federal cost accounting principles. These actions will be completed by March 30, 2012.

OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 46 (<i>Fast Report 9, Recommendation 4</i>)
Direct WSFD [Wyoming State Forestry Division] to provide FS with further documents to substantiate the reasonableness and necessity of \$450,000 of the sub-grant's costs discussed in this report, as well as to provide verifiable support for the project cost amounts. If WSFD cannot provide further documents, FS should disallow the costs and recover the funds.
Agency Response
In its November 16, 2011, response to our Fast Report, FS stated that in addition to the request for documentation noted in Recommendation 1 [Recommendation 43 of this exhibit], FS will request documentation from WSFD [Wyoming State Forestry Division] to verify the reasonableness and necessity of the \$450,000 expenditures reimbursed under this grant. The agency will review the documentation and if any costs are determined to be unallowable, cost recovery efforts will begin immediately. These actions will be completed by January 31, 2012.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 47 (<i>Fast Report 10, Recommendation 1</i>)
Recover from the Nevada Fire Safe Council the \$2.7 million [\$2,603,160] ⁶⁹ in Recovery Act grant funds reported in the Fast Report that were unsupported.
Agency Response
In its follow-up response to the Fast Report, FS stated that it is conducting a review of the Nevada Fire Safe Council grant expenses for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.
OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the Nevada Fire Safe Council that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 230. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 48 (<i>Fast Report 10, Recommendation 2</i>)
Withhold from the Nevada Fire Safe Council any future grant fund reimbursements until the Council can provide FS with documentation showing that it has implemented sufficient internal controls and

⁶⁹ The amount reported in the Fast Report was subsequently revised based on additional information obtained after the Fast Report was issued.

grant administration policies and procedures to properly account for all grant funds in accordance with OMB and grant requirements.

Agency Response

In its January 18, 2012, response to our Fast Report, FS stated that it will postpone further grant reimbursements and grant awards to NVFSC [Nevada Fire Safe Council] until it provides assurances and documentation to FS that it is able to fully comply with OMB cost requirements and Federal regulations, except where there is documentation that funds are being delivered to a third party, such as a contract vendor, and the costs comply with OMB requirements and federal regulations. In such instances, the agency will continue reimbursements and awards because there is minimal risk of inappropriate reimbursement to the NVFSC. Supporting documentation of compliance is due to FS by February 29, 2012. FS has corresponded and been in discussions with the Acting Executive Director of the NVFSC on the need to address governance and capacity for long-term viability as a Council and as a partner to achieve mutual restoration objectives. These actions will be completed by April 30, 2012, and will be ongoing until the grant is completed.

OIG Position

Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 49 (*Fast Report 10, Recommendation 3*)

For the remaining FS grant funds the Nevada Fire Safe Council has received, obtain documentation from the Nevada Fire Safe Council showing that the grant funds were adequately accounted for and used for their intended purpose.

Agency Response

In its January 18, 2012, response to our Fast Report, FS stated that through the review to be conducted by FS referenced in Recommendation 1 [Recommendation 47 of this exhibit], the Agency will have information to review the payments requested against all Recovery Act and Non-Recovery Act funds. These actions will be completed by April 30, 2012.

OIG Position

Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 50 (*Fast Report 10, Recommendation 4*)

In those instances where FS determines the charges to the remaining grants were not adequately supported, disallow the costs and recover any reimbursements already made to the Nevada Fire Safe Council.

Agency Response

In its follow-up response to the Fast Report, FS stated that it is conducting a review of the Nevada Fire Safe Council grant expenditures for the period of awards for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars. FS' estimated completion date for this action is January 30, 2014.

OIG Position
We do not accept management decision for this recommendation. To reach management decision on this recommendation, FS needs to specify the amount that it will recover from the Nevada Fire Safe Council that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 230. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.
Recommendation 51 (<i>Fast Report 10, Recommendation 5</i>)
Prior to awarding the Nevada Fire Safe Council any additional FS grants, require it to complete the required A-133 audit and provide evidence to FS that the audit has been completed and all deficiencies corrected.
Agency Response
In its January 18, 2012, response to our Fast Report, FS stated that it will issue a letter to the NVFSC [Nevada Fire Safe Council] informing them the receipt of future FS grants will be subject to providing satisfactory evidence of completion of the required A-133 audit with all deficiencies corrected.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
FINDING 3
Recommendation 52 (<i>Fast Report 2, Recommendation 1</i>)
Obtain from the State of Florida's Division of Forestry justification for the five mowers and five trucks used to transport them.
Agency Response
In its September 17, 2010, response to our Fast Report, FS agreed with this recommendation stating that justification was obtained on September 9, 2010, from the State of Florida's Division of Forestry. The justification for the need and benefit to the project of the mowers and fuel mulching equipment was reviewed and approved by FS.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 53 (<i>Fast Report 2, Recommendation 2</i>)
Provide additional guidance to the regions and the EROCs specifying what documentation is required from a grantee to justify equipment purchases for Recovery Act-funded grants.

Agency Response
In its September 17, 2010, response to our Fast Report, FS agreed with this recommendation stating that guidance was provided in a memo dated February 4, 2010. Additional guidance will be provided that is specific to the documentation required from a grantee to justify equipment purchases. This additional guidance will be provided by October 1, 2010.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 54 (<i>Fast Report 2, Recommendation 3</i>)
Instruct both the regions and the EROCs to review all existing Recovery Act-funded grant agreements to ensure that the equipment purchases are adequately supported and, for those that are not, to obtain the required justification.
Agency Response
In its September 17, 2010, response to our Fast Report, FS agreed with this recommendation stating that it will conduct a random sample of existing Recovery-Act funded grant agreements specifically to ensure that equipment purchases are adequately supported. Appropriate action, if necessary, will be taken following the review.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 55 (<i>Fast Report 2, Recommendation 4</i>)
In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, disallow the cost and recover any reimbursements already made to the grantee for the equipment.
Agency Response
In its September 17, 2010, response to our Fast Report, FS agreed with this recommendation stating that appropriate action will be taken to disallow the cost and recover any reimbursements where equipment purchases were not adequately justified.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
FINDING 4
Recommendation 56 (<i>Fast Report 5, Recommendation 1</i>)
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.
Agency Response
In its June 16, 2011, response to our Fast Report, FS concurred with this recommendation and stated that it had previously issued reminders regarding the need to monitor ARRA recipient accomplishments closely to validate the number of jobs created/retained. A letter of reminder will also 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 Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 57 (<i>Fast Report 5, Recommendation 2</i>)
Monitor whether Recovery Act grant recipients are meeting the above requirements.
Agency Response
In its June 16, 2011, response to our Fast Report, FS concurred with this recommendation and stated that it had previously issued reminders on monitoring requirements. The letter reminder in response to Recommendation 1 [Recommendation 56 of this exhibit] will also serve as a reminder for Regions to monitor the States' progress in meeting the above requirements.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
Recommendation 58 (<i>Fast Report 5, Recommendation 3</i>)
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.
Agency Response
In its June 16, 2011, response to our Fast Report, FS concurred with this recommendation and stated that it had previously provided a revision to ARRA provisions on the grant which includes remedies for noncompliance. The letter of reminder in response to Recommendation 1 [Recommendation 56 of this exhibit] 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.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

FINDING 5

Recommendation 59 (*Fast Report 3, Recommendation 1*)

Follow up with those States with approved Statewide non-Federal WFM Recovery Act funded grants to identify on-the-ground project work that has not yet been started.

Agency Response

In its March 11, 2011, response to our Fast Report, FS agreed with this recommendation stating that a letter will be issued to all Regions requesting that they remind States receiving statewide Non-Federal WFM Recovery Act funds that ARRA projects should be focused in the most economically distressed areas of the States. This letter will be issued by March 31, 2011. In regards to the findings identified in this report specific to Region 8 States with State-wide grants, they have obligated the majority of the funding they received; however, the States have also begun reviewing the remaining funds and are in the process of shifting those funds, if appropriate, to areas that are more economically distressed.

OIG Position

Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 60 (*Fast Report 3, Recommendation 2*)

For those projects not yet started, issue further guidance to the States requiring that they either use the combined composite scores FS developed or a similar process that the States develop to direct the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.

Agency Response

In its March 11, 2011, response to our Fast Report, FS agreed with this recommendation stating that the letter referenced in Recommendation 1 [Recommendation 59 of this exhibit] will be sent to all Regions advising them to remind all States to use FS developed composited scores to identify the most economically distressed areas or a similar process on projects not yet begun. In regards to the findings identified in this report specific to Region 8, the region has issued a reminder to the States that Recovery Act grant projects should be focused towards medium to very high economically distressed counties. Grantees in Region 8 have verbally agreed to make changes needed to meet this guidance wherever possible.

OIG Position

Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Recommendation 61 (*Fast Report 3, Recommendation 3*)

For those grants with projects not yet started, monitor the States' progress in directing the Recovery Act funds to on-the-ground projects that best meet Recovery Act objectives.

Agency Response
In its March 11, 2011, response to our Fast Report, FS agreed with this recommendation stating that it will issue guidance to all Regions to serve as a reminder to monitor the States' progress in directing funding from approved statewide non-Federal WFM Recovery Act funded grants, to on-the-ground projects that best meet Recovery Act objectives. The guidance will include details on the frequency of the monitoring to assess States' progress to best meet Recovery Act objectives, and will be issued by March 31, 2011.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.
FINDING 6
Recommendation 62 (<i>Fast Report 1, Recommendation 1</i>)
To ensure consistent and sufficient accountability over Recovery Act-awarded funds, FS should immediately modify its Recovery Act grant templates in I-Web to include the necessary provisions discussed in the finding.
Agency Response
In its March 25, 2010, response to our Fast Report, FS stated that the subject report recommends enhancements to the awards templates to expand the recipient's awareness of the magnitude of compliance activities mandated by the Recovery Act. The Agency has accordingly, directed that new Recovery Act G&A awards incorporate the recommended provisions with the existing disclosure references. In regards to the Report's recommendations, FS has addressed the recommendations and considers the corrective actions completed; therefore requesting closure of this recommendation.
OIG Position
Based on the response to the Fast Report, we accept FS' management decision on this recommendation.

Exhibit E: Sampling Methodology

This exhibit shows our sampling methodology for those Recovery Act projects statistically selected for review.

Objective

The objective was to determine whether WFM projects on non-Federal lands met the goals and requirements of the Recovery Act. Statistical sampling⁷⁰ was used to ensure objectivity of our audit results, but no projections were made.

Audit Universe

From May through September 2009, FS approved 152 WFM projects on non-Federal lands. As of February 1, 2010, FS had allocated \$214 million to these projects. These projects were funded primarily through grants to State and local government entities, as well as universities, tribal governments, and non-profit organizations. Of the 152 projects, we selected 20 for review: 6 having an award value of at least \$5 million and 14 having an award value under \$5 million.

Sample Design and Modifications

Stage 1

A multi-stage stratified approach was developed in order select the sample of projects that were reviewed. In stage 1, the projects were divided into two strata: (1) projects having an award value of at least \$5 million and (2) projects having an award value under \$5 million. The following table includes data for the universe and selected sample for Stage 1.

Table 1 – Universe and Sample for Stage 1

Strata	Stage 1 Universe of Projects	Stage 1 Sample of Projects
Stratum I: Award of at least \$5 million	9	6
Stratum II: Award of under \$5 million	143	14
Total	152	20

During the course of the audit, it was decided to review only those projects statistically selected from Stratum I since they encompassed a significant portion of the grant funds FS awarded for

⁷⁰ Also referred to as random or probability sampling.

WFM projects on non-Federal lands and we had already questioned a significant portion of those funds. Therefore, there was no need to project. We also reviewed two of the projects that were statistically selected from Stratum II because they involved the same grant recipients that we were already reviewing for projects statistically selected from Stratum I.

Stage 2

Three of the projects that were selected under Stage 1 had multiple prime recipients.⁷¹ Because all three of these projects had no more than 5 prime recipients, we reviewed all of the prime recipients associated with these projects. As a result, we reviewed a total of 16 prime recipients.

Stage 3

Some of the prime recipients under Stage 1 had one or more sub-recipients.⁷² In Stage 3, we statistically selected a sample of those sub-recipients for review. The following table includes the universe and selected sample for Stage 3.

Table 3 – Universe and Sample for Stage 3

Project	Stratum	Number of Prime Recipients	Number of Sub-Recipients	Number of Sub-Recipients Selected for Review
WFM-0231-1-HFE	1	1	10	6
WFM-NM-11FHE	1	1	1	1
WFM-0825-01HFE	1	5	5	5
WFM-0825-02FHC	1	1	1	1
WFM-0825-12FHC	2	1	1	1
Totals		9	18	14

Stage 4

The project work was completed by either the prime recipients selected under Stage 2 or the sub-recipients selected under Stage 3. Under Stage 4, we statistically selected a sample of those projects to review. For those prime and sub-recipients in which project work had already started, we obtained the universe of projects sites for these prime and/or sub-recipients and statistically selected a sample to review.

⁷¹ Prime recipients are non-Federal entities that receive grants directly from FS.

⁷² Sub-recipients are non-Federal entities that receive Federal funds from the prime recipient through sub-grants or sub-contracts.

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



Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430

Date: March 1, 2013

Route To:

Subject: FS Response to Reach Management Decision on Office of Inspector General Report No. 08703-0005-SF, "ARRA-FS Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands".

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

Thank you for the opportunity to review and comment on the OIG draft audit report titled, "*ARRA-FS Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands*", dated January 3, 2013. The Agency generally concurs with the audit report findings and recommendations. Enclosed are the agency's comments in response to implementing the audit recommendations. If you have any questions, please contact Thelma Strong, Chief Financial Officer, at (202)-205-1321 or tstrong@fs.fed.us.

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

cc: Arthur Bryant
Jaelith H Rivera
Erica Y Banegas
Sandy T Coleman
Melissa A Moreira
Lynne W Sholty
Dianna Capshaw
Susan K Crutcher
Anthony Lo
Valarie A Sanchez



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USDA Forest Service (FS)

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Office of Inspector General (OIG) Audit Report No. 08703-0005-SF
ARRA – FS Hazardous Fuels Reduction and Ecosystem Restoration Projects on Non-Federal Lands

Response to the Official Draft

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Recommendation 1: Provide training or policy direction to all employees who work on grants that clearly explain their responsibility for ensuring Federal grant funds are used appropriately and in accordance with applicable laws and regulations.

FS Response: The FS concurs with this recommendation. The FS is in the process of updating the Grants Management Handbook (Chapter 20 of the Forest Service Directive 1509.11). This update will include specific language describing the responsibilities of program managers, grants management specialists, signatory officials, financial management, and agency auditors in ensuring Federal grant funds are used appropriately and in accordance with applicable laws and regulations. In addition, the agency is developing a training module specifically designed for program managers that will be available for self-study through AgLearn, and will contain a module on financial assistance.

Estimated Completion Date: March 30, 2014

Recommendation 2: Assess the skills and expertise needed to effectively evaluate FS grant recipients' financial accounting processes and controls, and staff grant oversight positions with appropriately qualified personnel.

FS Response: The FS concurs with this recommendation. The agency's Office of Audit & Assurance (A&A) has re-aligned their auditing staff to provide the necessary skills and expertise to assist in evaluating FS grant recipients' financial accounting processes and controls and conduct ongoing and periodic audit reviews (in conjunction with applicable program reviews, as appropriate). Their focus will be on grantees' financial reports, accounting records, and records of equipment purchased with grant funds. They will work in conjunction with agency staff who oversee grants – program managers and grants specialists. The FS Grants Management Handbook will be updated to reflect these new A&A roles and responsibilities.

Estimated Completion Date: March 30, 2014

Recommendation 3: Clarify the roles and responsibilities of FS grant and agreement specialists and program managers, so that both positions clearly understand the nature and scope of their required grant oversight and monitoring responsibilities.

FS Response: The FS concurs with this recommendation. The FS is in the process of updating the Grants Management Handbook (Chapter 20 of the FS Directive 1509.11). This update will include specific language describing the roles and responsibilities of FS grant and agreement

specialists, so that both positions clearly understand the nature and scope of their required grant oversight and monitoring responsibilities.

Estimated Completion Date: March 30, 2014

Recommendation 4: Provide training to grant and agreement specialists, program managers, and other appropriate FS staff to ensure that they have the needed knowledge and skills to perform their respective oversight responsibilities. The training should cover the pre-award financial assessments and post-award financial monitoring of Federal grants.

FS Response: The FS concurs with this recommendation. In response to the Fast Report recommendation issued May 5, 2011, the agency conducted training via webinar in December 2011 that reached approximately 1,200 grant recipients and agency staff, as well as three trainings conducted by an outside contractor in September and October of 2011 that reached over 200 grant recipients and agency staff. The training provided by the outside contractor consisted of two sessions, the first focused on cost principles and the second focused on grants management and oversight in general, including pre-award financial assessments and post-award financial monitoring. To further focus on pre-award financial assessments and post-award financial monitoring, the agency will continue to provide specific training on these topics as part of the annual AQM Acquisition Community Training (called “ACT III” training) required for grants and agreement specialists and open to program managers. The ACT III training is the current on-line webinar training that will continue to be available over the remainder of the fiscal year.

Estimated Completion Date: January 30, 2014

Recommendation 5: Modify existing direction to require that the pre-award financial assessments be conducted by the grant and agreement specialists or other FS staff properly trained and qualified to effectively conduct these type of reviews. The direction should also provide additional guidance on conducting the reviews to ensure that only qualified applicants are considered for FS grants.

FS Response: The FS concurs with this recommendation. The Agency will require the Grants Management Specialist to coordinate the pre-award financial assessments. The FS will update the Grants & Agreements Handbook, FSH 1509.11 to include this requirement and will state that FS pre-award meetings and financial assessments are essential when a grantee has not previously received an award from the FS or is an infrequent grantee. The agency does not conduct these types of meetings and assessments prior to selection, but does so prior to award to ensure the best qualified grantees.

Effective, July 14, 2011, the FS provided pre- and post-award direction via letter (**TAB A**), in response to similar issues raised by the OIG. The letter reiterates roles and responsibilities for pre- and post-award assessment, and stresses the importance of such meetings to ensure recipient financial viability and awareness of terms and conditions. Further, the letter emphasizes new direction requiring Grants Management Specialists to use a FS developed standardized tool to assess a new recipient’s financial strength and capability prior to accepting Federal Financial

Assistance awards. The questionnaire is entitled: *Questionnaire for Review of Applicant's Financial Strengths and Organization Capabilities (TAB B)*. The letter was distributed to Regional Foresters, Station Directors, the Northeastern Area Director, the International Institute of Tropical Forestry Director, Deputy Chiefs, and Washington Office Directors. The Handbook will be revised to include reference to this standardized questionnaire and a link to the tool.

Estimated Completion Date: March 30, 2014

Recommendation 6: Modify existing direction to require that the post-award financial monitoring be conducted by the grant and agreement specialists or other FS staff properly trained and qualified to effectively conduct these types of reviews. The direction should also provide additional guidance on when to conduct the reviews, how to ensure grant recipients comply with OMB requirements, and how to monitor subgrantees.

FS Response: The FS concurs with this recommendation. The Agency will require the Grants Management Specialist or Program Manager, as appropriate to coordinate a post-award meeting with new or infrequent grant recipients of FS funds. The FS will update the Grants & Agreements Handbook, FSH 1509.11, Chapter 20 to include this requirement. In addition, the Handbook will be updated to include guidance on topics to be addressed at post-award meetings. This includes: (1) terms and conditions of the award document; (2) review and discussion of OMB Circulars applicable to the award; (3) reporting requirements; (4) record keeping; (5) payment policies and procedures, and (6) programmatic expectations and milestones. The Handbook will be updated to require a summary of this meeting to be placed in the official grant file; the summary will include a list of attendees and topics discussed.

Effective, July 14, 2011, the FS provided pre- and post-award direction via letter (**TAB A**), in response to similar issues raised by the OIG. The letter reiterates roles and responsibilities for pre- and post-award assessment, and stresses the importance of such meetings to ensure recipient financial viability and awareness of terms and conditions. Further, the letter emphasizes new direction requiring Grants Management Specialists to use a FS developed standardized tool to assess a new recipient's financial strength and capability prior to accepting Federal Financial Assistance awards. The questionnaire is entitled: *Questionnaire for Review of Applicant's Financial Strengths and Organization Capabilities (TAB B)*. The letter was distributed to Regional Foresters, Station Directors, the Northeastern Area Director, the International Institute of Tropical Forestry Director, Deputy Chiefs, and Washington Office Directors. The Handbook will be revised to include reference to this standardized questionnaire and a link to the tool.

Estimated Completion Date: March 30, 2014

Recommendation 7: Provide periodic direction and information to both current and future FS grant recipients, using methods such as structured webinars, an internet site with information about key financial requirements, and a more efficient way for recipients to obtain responses to their grant-related questions to ensure that they understand and have the tools to comply with Federal grant requirements.

FS Response: The FS concurs with this recommendation. The FS will continue to provide periodic direction and information to current and future FS grant recipients through the current

website (which contains a link to archived webinars), future webinars, regionally-specific training and workshops, one-on-one technical assistance, and other methods, as appropriate. Each grantee receives the contact information for their applicable Program Specialist and Grant and Agreement Specialist as part of the award letter, which helps to ensure timely responses to grant-related questions.

Estimated Completion Date: March 30, 2014

Recommendation 8: Recover from the Alabama Forestry Commission the \$6,408,863 in unsupported salary costs we identified after the issuance of Fast Report 6 that was charged to its non-Recovery Act-funded grants still active at the time of our audit.

FS Response: The FS generally concurs with this recommendation. The agency is currently conducting a review of the Alabama Forestry Commission's grant charges for the period of performance from 2007 through 2012. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 9: Recover from the San Bernardino National Forest Association the \$7,064 in unsupported salary costs we identified after the issuance of Fast Report 6 that was charged to its FS Recovery Act-funded grant reviewed.

FS Response: The FS generally concurs with this recommendation. The agency will conduct a review of the FS grant 09-DG-11059702-010 expenditures. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 10: Recover from the San Bernardino National Forest Association the \$2,726,888 in unsupported salary costs we identified after the issuance of Fast Report 6 that was charged to its other active FS Recovery Act- and non-Recovery Act-funded grants.

FS Response: The FS generally concurs with this recommendation. The agency will conduct a review of the FS grant 09-DG-11059702-010 expenditures. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 11: Recover from the Nevada Fire Safe Council the additional \$3,651,019 in unallowable costs we identified after the issuance of Fast Report 10. The additional amount questioned was for costs that were determined duplicative, inappropriately allocated (e.g., overhead costs), and unsupported (e.g., salaries).

FS Response: The FS generally concurs with this recommendation. The agency is conducting a review of the Nevada Fire Safe Council grant charges for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 12: Postpone further salary reimbursements to the Alabama Forestry Commission, San Bernardino National Forest Association, and Nevada Fire Safe Council 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. Also, postpone further grant reimbursements to the Nevada Fire Safe Council until it is able to provide FS with documentation and assurance that it has developed procurement policies and procedures that comply with applicable OMB requirements and from the San Bernardino National Forest Association until it provides FS with the necessary assurances that it has discontinued the cost shifting activities discussed in this report and that previously shifted costs have been properly corrected and resolved.

FS Response: The FS concurs with this recommendation. The FS has received written assurance from both the Alabama Forestry Commission and the San Bernardino National Forest Association documenting their compliance with the OMB salary cost allocation requirements. Additionally, the San Bernardino National Forest is working with the San Bernardino National Forest Association to properly correct costs to both the Recovery Act and non-Recovery Act grants. The FS will continue to postpone any reimbursement to the Nevada Fire Safe Council.

Estimated Completion Date: March 30, 2014

Recommendation 13: Direct the New Mexico Energy, Minerals and Natural Resources Department and Colorado State University to establish controls over their subgrant administration that reflect Federal requirements. These controls should be established through written policies and procedures that include, but are not limited to, their responsibility to manage the day-to-day operation of their subgrant recipients to assure that subrecipients have financial accounting systems and controls that comply with Federal standards, that subrecipients have competitive project selection and procurement policies, and that applicable Federal cost allowability Requirements (e.g., OMB Circular Nos. A-87 and A-21) are met.

FS Response: The FS concurs with this recommendation. The FS has reviewed the financial management systems for New Mexico Energy, Minerals, and Natural Resources Department. Numerous corrective actions have already been implemented, including written policy and procedures for monitoring of subrecipients, financial assessment of subrecipients, and competitive procurement procedures for single source, limited and full competition. The FS will assess these corrective actions and provide additional direction on these issues, if necessary.

The FS will work with Colorado State University to ensure that written subrecipient controls cover the requirements in the applicable OMB Circulars, located in 2 CFR 215 and 2 CFR 220.

Estimated Completion Date: March 30, 2014

Recommendation 14: Direct the appropriate FS staff to assess the New Mexico Energy, Minerals and Natural Resources Department and Colorado State University documented controls over subgrant administration to ensure they reflect Federal requirements. During this assessment, FS staff should confirm that the recipients' procedures ensure costs associated with FS grant-funded procurements are reasonable, necessary, properly supported, and conform to applicable OMB cost principles.

FS Response: The FS concurs with this recommendation. As part of the review that will be completed for Recommendation 23 from Fast Report 6, FS staff will confirm the recipients' written subrecipient controls and policies meet the requirements in the applicable OMB Circulars and that their procedures ensure costs associated with FS grant-funded procurements are reasonable, necessary, properly supported and conform to applicable OMB cost principles.

Estimated Completion Date: March 30, 2014

Recommendation 15: If not already acquired in response to Recommendation 54 (Fast Report 2, Recommendation 3), obtain from the State of New Mexico, the North Carolina Department of Natural Resources, the South Carolina Forestry Commission, and the Florida Department of Agriculture justification for the equipment they purchased with FS Recovery Act grant funds.

FS Response: The FS concurs with this audit recommendation. Corrective action has been implemented and the FS requests closure of this recommendation. On pages 23-24 of the Official Draft Audit Report 08703-5-SF, dated January 3, 2013, OIG states that "*Subsequent to our fieldwork, the New Mexico recipient submitted additional documents to justify its purchases. We reviewed the justification and concluded that it adequately explained why the \$856,600 in equipment purchases was needed for the Recovery Act-funded project work; however, it did not include the required analysis showing why the equipment needed to be purchased, rather than rented or leased*". The analysis used to compare the purchase price of the equipment to leasing costs is enclosed (**TAB C**).

The FS also assessed each equipment line item in the applicable Recovery Act grants to the North Carolina Department of Natural Resources, the South Carolina Forestry Commission, and the Florida Department of Agriculture and ensured that government-owned property was not available prior to considering approval of purchases/leases of similar equipment under a recipient-proposed financial plan. Program managers provided written certification that the purchase of equipment was necessary and that it would be used primarily or exclusively for the project to which it will be charged. The Program Manager's certification or approval and the grantee's equipment justification (**TAB D**) is documented in the agency's electronic grants management system as well as the official grant file.

Estimated Completion Date: March 4, 2013

Recommendation 16: In those instances where FS determines the equipment purchases were not justified and the equipment was already purchased, disallow the cost and recover any reimbursements already made to the grant recipient for the equipment.

FS Response: The FS concurs with this audit recommendation. Corrective action has been implemented and the FS requests closure of this recommendation. The FS has determined from reviewing the justifications provided for Recommendation 15, that it was appropriate to purchase the equipment; it is not necessary to disallow or recover any reimbursements made to the grant recipients for equipment (**TAB D**).

Estimated Completion Date: March 4, 2013

Recommendation 17: Review all Recovery Act grant agreements still active to determine whether the required Recovery Act provisions were included.

FS Response: The FS concurs with this audit recommendation. Corrective action has been implemented and the FS requests closure of this recommendation. As of January 31, 2013 an NRM review of all Recovery Act grants (**TAB E**) was completed to ensure Recovery Act provisions were added to each grant. The date of the modification for each agreement and the revised provisions are documented in the NRM system.

Estimated Completion Date: January 31, 2013

Recommendation 18: For those Recovery Act grant agreements that did not contain the required Recovery Act provisions, amend the grant agreements to include them.

FS Response: The FS concurs with this audit recommendation. Corrective action has already been implemented and the FS requests closure of this recommendation. As of January 31, 2013 an NRM review of all Recovery Act grants (**TAB E**) was completed to ensure Recovery Act provisions were added to each grant. The date of the modification for each agreement and the revised provisions are documented in the NRM system.

Estimated Completion Date: January 31, 2013

Recommendation 20: For those grants where FS determines recipients' indirect cost rates have not been formally reviewed and approved, direct grant recipients to prepare and submit to FS' financial service center an indirect cost rate plan for FS review and approval. In the interim, FS should not allow grant recipients to claim indirect costs until FS approves their indirect cost rates.

FS Response (2/4/2011): In its February 4, 2011, response to our Fast Report, FS stated that it cannot concur with this recommendation as it is written. For those grantees without approved indirect cost rates, the FS will direct those recipients to prepare and submit indirect cost rate proposals to their cognizant agency for review and approval. If the FS is determined to be the cognizant agency, it will request the cognizant agency auditor to conduct the appropriate audits. The FS is precluded from withholding reimbursement for indirect costs as requested by the

recommendation. So until an audit can be conducted, the FS proposes to negotiate reasonable indirect cost rates with grantees and reimburse accordingly throughout the grant until the final rate can be determined. Currently, the FS does not have authority delegated to them to conduct indirect cost audits.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to provide the date by which the agency will negotiate reasonable indirect cost rates with grantees.

FS Follow-up Response: The FS will complete a review of its grantees and ensure all FS recipients have approved indirect cost rates in place by March 30, 2014.

Estimated Completion Date: March 30, 2014

Recommendation 21: Review indirect costs previously claimed by grant recipients lacking approved rates and disallow any indirect costs FS determines to be ineligible, inaccurate, or unsupported.

FS Response (2/4/2011): In its February 4, 2011, response to our Fast Report, FS stated that it cannot concur with this recommendation as it is written. FS is implementing processes for program managers to negotiate lower indirect cost rates than what their audited statements would allow. This is done to lower and control indirect costs paid by FS and improve delivery of services. FS is questioning the reasonableness of indirect costs as they rely on the determination of an external auditor on whether the costs are supportable. Pursuant to OMB Circular A-133, grantees with federal funding \$500,000 and above are required to have a Single Audit. The FS can use the information contained in these reports from these grantees to determine an appropriate indirect cost rate after completion of the audit, however, reviews of these computed rates versus the negotiated rates often indicate that the negotiated rate is lower than what the audited rate would result in. For those grantees with less than \$500,000 in federal funding, there is no requirement for an audit. Consequently, FS would be required to conduct an audit to form the basis for disallowance of costs which would result in additional cost to the Agency. We propose that FS conduct a regular evaluation of grants which meet these criteria and have indirect costs to determine the relative risk of exposure for overpayment of indirect costs as not all grants have indirect costs.

OIG Position (10/12/12): Based on the response to the Fast Report, we do not accept FS' management decision on this recommendation. To reach management decision, FS needs to review the indirect costs previously claimed by those grant recipients lacking approved rates and disallow any indirect costs that it determines to be ineligible, inaccurate, or unsupported. To accomplish this, we do not agree that FS would need to audit the grant recipients to determine the amount of indirect costs that they should have charged during the period in which they lacked approved indirect cost rates. FS could direct the grant recipients to identify the indirect costs incurred by their organizations in the past and have those amounts confirmed as accurate and complete by an independent auditor.

FS Follow-up Response: The FS will review the indirect costs previously claimed by those grant recipients lacking approved rates and disallow any indirect costs determined to be ineligible, inaccurate or unsupported.

Estimated Completion Date: January 30, 2014

Recommendation 22: Recover from the six grant recipients [California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo] the \$389,747 [\$389,693] in unsupported salary costs already charged to the FS Recovery Act grants reviewed.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that it 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 Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from the six grant recipients the \$389,693 in unsupported salary costs already charged to the six FS Recovery Act-funded grants unless the grant recipients can ultimately support their salary costs. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

FS Follow-up Response: The FS has conducted a review of the \$389,747 in unsupported salary costs charged to the FS Recovery Act grants reviewed for the six grant recipients (California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo). In October of 2012, FS briefed the OIG audit team on the results, and an agreement was made to bill the following recipients for the unsupported amounts that totaled \$371,188. The Tribal government was able to produce additional supporting documentation for \$18,559, thereby reducing the initial unsupported salary costs from \$389,747 to \$371,188, as shown in the table. FS has initiated the recovery process to recover the unsupported salary costs.

Grant Recipient	FS Review of Unsupported Salaries Charged to Selected Recovery Act Grants	Recommended Action
State Offices:		
California	\$190,626	Recover funds
Georgia	82,313	Recover funds
New Mexico	0	No Action Needed
County Office	73,677	No action needed
Tribal Government	24,572*	Recover funds
Total	\$371,188	
*Amount initially reviewed was \$43,131. The Tribal Government was able to produce supporting documentation for \$18,559.		

Estimated Completion Date: January 30, 2014

Recommendation 23: Recover from the six grant recipients [California Department of Forestry and Fire Protection, Georgia Forestry Commission, San Bernardino County Fire Protection District, New Mexico Energy, Minerals and Natural Resource Department, and Santa Ana Pueblo] the \$28 million in unsupported salary costs already charged to the other FS Recovery Act and non-Recovery Act-funded grants still active at the time of our audit.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that it 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 Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from the six grant recipients the portion of the \$28 million in salary costs already charged to the other FS Recovery Act- and non-Recovery-Act-funded grants still active that it determines are unsupported. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

FS Follow-up Response: The FS will conduct a review of the \$28 million in salary costs for the six grant recipients and will take appropriate action to recover unsupported salary costs identified through this review, as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 24: Postpone further salary reimbursements to all grant recipients with unsupported salary costs in Recommendations 1 and 2 [Recommendations 22 and 23 of this exhibit] 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.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that it has not had an opportunity to review the grants or grant recipients mentioned in Recommendations 1 and 2 [Recommendations 22 and 23 of this exhibit]. 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 Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will postpone further salary reimbursements to all grant recipients with unsupported salary costs in Fast Report Recommendations 1 and 2 [Recommendations 22 and 23 of this exhibit] 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.

FS Follow-up Response: The FS will ensure that certification of compliance with OMB cost allocation for salary is in place for all grantees that have a salary component in their grant. If a grantee is unable or refuses to certify compliance, the FS will postpone reimbursement for salary expenses.

Estimated Completion Date: March 30, 2014

Recommendation 25: 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.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that based on the results of the reviews conducted by the FS referenced above, 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 Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will review all of the Recovery Act- and non-Recovery Act-funded grants still active for those grant recipients unable to timely certify to FS their compliance with OMB's cost allocation requirements to determine whether their salary costs were appropriately charged to the grants.

FS Follow-up Response: For those grantees unable to certify compliance with OMB cost allocation requirements for salary costs, the FS will review the active Recovery Act and non-Recovery Act-funded grants.

Estimated Completion Date: March 30, 2014

Recommendation 28: 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.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that 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 Position (10/12/12): Based on the response to the Fast Report, we do not accept FS' management decision on this recommendation. To reach management decision, FS needs to require grant recipients to describe in their grant applications their financial accounting processes used for allocating and supporting their costs charged to the grants. FS also needs to require that qualified FS staff review the grant applications to ensure that the grant applicants are able to meet OMB's cost allocation requirements before awarding the grant. As the awarding agency, FS is responsible for ensuring that grant recipients are able to adequately account for the grant funds before awarding them the grant.

FS Follow-up Response: The FS is updating and formalizing the form, *Accounting System Financial Capability Questionnaire*. The form will be completed by applicants selected for funding, and reviewed by G&A Specialists or FS financial management staff prior to award to ensure financial accounting processes meet OMB's cost allocation requirements.

Estimated Completion Date: March 30, 2014

Recommendation 30: 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.

FS Response (5/18/2011): In its May 18, 2011, response to our Fast Report, FS stated that based on the results of the reviews conducted by the FS, the agency will take appropriate action as applicable per OMB Circular requirements.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will 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.

FS Follow-up Response: The FS will require the Grants Management Specialist to coordinate the pre-award meetings with grant recipients. The FS will update the Grants & Agreements Handbook, FSH 1509.11 to include this requirement and will state that FS pre-award meetings

and financial assessments are essential when a grantee has not previously received an award from the FS or is an infrequent grantee. The agency does not conduct these types of meetings and assessments prior to selection, but does so prior to award to ensure the best qualified grantees.

Effective, July 14, 2011, the FS provided pre- and post-award direction via letter (**TAB A**), in response to similar issues raised by the OIG. The letter reiterates roles and responsibilities for pre- and post-award assessment, and stresses the importance of such meetings to ensure recipient financial viability and awareness of terms and conditions. Further, the letter emphasizes new direction requiring Grants Management Specialists to use a FS developed standardized tool to assess a new recipient's financial strength and capability prior to accepting Federal Financial Assistance awards. The questionnaire is entitled: *Questionnaire for Review of Applicant's Financial Strengths and Organization Capabilities (TAB B)*. The letter was distributed to Regional Foresters, Station Directors, the Northeastern Area Director, the International Institute of Tropical Forestry Director, Deputy Chiefs, and Washington Office Directors. The Handbook will be revised to include reference to this standardized questionnaire and a link to the tool.

Estimated Completion Date: March 30, 2014

Recommendation 31: Recover from the State agency [Alabama Forestry Commission] the \$14.4 million in unallowable costs for the FS Recovery Act and non-Recovery Act-funded grants reviewed and any additional unallowable amount accrued since April 27, 2011.

FS Response (12/15/2011): In its December 15, 2011, response to our Fast Report, FS stated that it will perform a review and will manage any issues identified as applicable by the OMB Circulars and Federal cost accounting principles. These actions will be completed by April 30, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from the Alabama Forestry Commission all portions of the \$14.4 million that we questioned in the Fast Report that cannot be supported and documented in accordance with OMB cost principles cited in 2 CFR 225, as well as any additional amounts determined from its review. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

FS Follow-up Response: The agency is conducting a review of the Alabama Forestry Commission's grant charges for the period of performance from 2007 through 2012. The agency will take appropriate action to recover unsupported salary costs identified through this review as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 34: If the State agency [Alabama Forestry Commission] wants to continue to charge indirect costs to its FS grants, direct the State agency to submit to FS an indirect cost rate proposal for FS review and approval. If the State agency elects to charge indirect costs using a

cost allocation plan, direct the State agency to prepare and submit its cost allocation plan to HHS [U.S. Department of Health and Human Services] for formal review and approval.

FS Response (12/15/2011): In its December 15, 2011, response to our Fast Report, FS stated that AFC [Alabama Forestry Commission] submitted an Indirect Cost Rate Proposal to the FS. The indirect cost rate has been approved by the Agency.

OIG Position (10/12/12): Based on our review of the Indirect Cost Rate Proposal AFC [Alabama Forestry Commission] submitted to FS, we cannot accept management decision on this recommendation. Our review of AFC's Indirect Cost Rate Proposal concluded that the Proposal was not only inaccurate, but was also unsupported. For example, AFC's Indirect Cost Rate Proposal did not accurately identify or classify its direct and its indirect costs in order to compute the calculation. To reach management decision, FS needs to ensure that the indirect cost rate it approves for AFC meets OMB requirements.

FS Follow-up Response: The FS will ensure that the indirect cost rate approved for AFC meets OMB requirements. For FY 2010, the FS approved AFC's indirect cost rate proposal, after negotiating a 21.4 percent indirect cost rate. The FY 2011 and FY 2012 indirect cost rates were provisional and subject to further review. In mid-2012, AFC submitted an indirect cost rate proposal with a proposed rate of 133 percent. The FS did not endorse, nor approve AFC's proposed indirect cost rate. In August 2012, AFC agreed to accept the FS proposed rate of 21.4 percent, which meets OMB requirements and in the future will comply with proposed OMB compliant indirect cost rates.

Estimated Completion Date: August 2012

Recommendation 39: Recover from CSU [Colorado State University] the \$69,879 in Recovery Act grant funds the subrecipient used for unauthorized purposes.

FS Response (11/1/2011): In its November 1, 2011, response to our Fast Report, FS stated that it is currently working with Colorado State University Office of Sponsored Programs (Grants); Colorado State Forest Service; USDA Office of General Counsel (OGC); and U.S. Attorney's Office to resolve the issue of \$69,878.64 used for unauthorized purposes. FS has requested CSU [Colorado State University] to provide additional information to the agency by November 30, 2011. Upon receipt of their response the FS will perform a review, and if any issues are identified, the agency will manage them in accordance with applicable OMB Circulars. These actions will be completed by January 31, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from Colorado State University the \$69,879 in Recovery Act grant funds the subrecipient used for unauthorized purposes. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

FS Follow-up Response: The FS completed a review of Colorado State University (CSU) and the \$69,879 in Recovery Act grant funds the subrecipient used for unauthorized purposes. The

FS is in the process of creating a bill for collection to recover from CSU those funds used for unauthorized purposes.

Estimated Completion Date: January 30, 2014

Recommendation 40: For all FS grants still active, require CSU [Colorado State University] to verify that subrecipients actually paid the invoices they submitted for reimbursement, and that the grant funds were used for their intended purpose.

FS Response (11/1/2011): In its November 1, 2011, response to our Fast Report, FS stated that based on the results of the review conducted by the FS referenced in Recommendation 1 [Recommendation 39 of this exhibit], the agency will take appropriate action in accordance with applicable OMB circulars. These actions will be completed by January 31, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will verify during its review that subrecipients actually paid the invoices they submitted for reimbursement and that the grant funds were used for their intended purpose.

FS Follow-up Response: Through its review of active grants, the FS will verify that subrecipients paid the invoices submitted for reimbursement and that the grant funds were used for the intended purpose.

Estimated Completion Date: March 30, 2014

Recommendation 41: In those instances where CSU [Colorado State University] determines that the invoices were not paid, or grant funds were used for an unauthorized purpose, require that CSU recover the grant funds from the subrecipient.

FS Response (11/1/2011): In its November 1, 2011, response to our Fast Report, FS stated that based on the results of the review conducted by the FS referenced in Recommendation 1 [Recommendation 30 of this exhibit], the agency will take appropriate action in accordance with applicable OMB circulars. These actions will be completed by January 31, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will require Colorado State University to recover from the subrecipient the grant funds it claimed for unpaid invoices or used for unauthorized purposes.

FS Follow-up Response: The FS cannot require Colorado State University to recover from the subrecipient the grant funds it claimed for unpaid invoices or used for unauthorized purposes. The FS instead will recover the unauthorized expenditure amounts from Colorado State University (see Recommendation #39).

The decision to recover funds from the subrecipient belongs solely to Colorado State University. In 2 CFR 215.2, *Subrecipient* is defined as “the legal entity to which a subaward is made and which is accountable to the recipient for the use of the funds provided.” To further illustrate, standard grant management practices as cited in the GAO Red Book state, “When a grantee

under a federal grant enters into a contract with a third party (contractor), there is privity between the United States and the grantee, and privity between the grantee and the contractor, but no privity between the United States and the contractor.”

Estimated Completion Date: January 30, 2014

Recommendation 42: Instruct CSU [Colorado State University] to modify its policy to require that subrecipients of Federal grant funds provide documentation showing that claimed costs, including invoices, have been paid before seeking reimbursement. If subrecipients do not provide such documentation, CSU should withhold reimbursement.

FS Response (11/1/2011): In its November 1, 2011, response to our Fast Report, FS stated that based on the results of the reviews conducted by the FS, the agency will take appropriate action in accordance with applicable OMB Circular requirements. These actions will be completed by January 31, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will instruct Colorado State University to modify its policy to require that subrecipients of Federal grant funds provide documentation showing that claimed costs, including invoices, have been paid before seeking reimbursement, and if subrecipients do not provide such documentation, CSU will withhold reimbursement.

FS Follow-up Response: Under the OMB Circulars, grantees and subgrantees may use either an accrual or cash accounting system. Bills are based on outlays or expenditures, defined in 2 CFR 215.2 as “charges made to the project or program. They may be reported on a cash or accrual basis. . . . on an accrual basis, outlays are the sum of cash disbursements for direct charges for goods and services, the amount of indirect expenses incurred . . . and the net increase (or decrease) in the amounts owed by the recipient for goods and service performed by employees, contractors, subrecipients and other payees.” An invoice received by CSU from a subrecipient that uses an accrual accounting system may include items which have been invoiced but not yet paid.

Monitoring of subrecipients by Colorado State University will validate actual payment of invoices through a review of the subrecipients’ financial management system (see Recommendation #40). The FS will review Colorado State University’s policies and procedures regarding subrecipients to ensure they meet the requirements in the OMB Circulars.

Estimated Completion Date: March 30, 2014

Recommendation 47: Recover from the Nevada Fire Safe Council the \$2.7 million [\$2,603,160] in Recovery Act grant funds reported in the Fast Report that were unsupported.

FS Response (1/18/2012): In its January 18, 2012, response to our Fast Report, FS stated that it is currently working with the Nevada Fire Safe Council (NVFSC) to resolve the potential issue of \$2.7 million used for expenses that are unsupported. FS is requesting the NVFSC provide additional information to the Agency by February 29, 2012. The agency will perform a review

and will manage any issues identified as applicable by the OMB Circulars and federal cost accounting principles. These actions will be completed by May 31, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from the Nevada Fire Safe Council the \$2,603,160 questioned during the audit. FS will also need to provide OIG a copy of the bill for collection for the amount owed to the Government and support that the amount has been entered as a receivable on the agency's accounting records.

FS Follow-up Response: The agency is conducting a review of the Nevada Fire Safe Council grant expenses for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

Recommendation 50: In those instances where FS determines the charges to the remaining grants were not adequately supported, disallow the costs and recover any reimbursements already made to the Nevada Fire Safe Council.

FS Response (1/18/2012): In its January 18, 2012, response to our Fast Report, FS stated that based on the results from the review conducted by the FS referenced review in Recommendation 1 [Recommendation 47 of this exhibit], the Agency will take appropriate action in accordance with applicable OMB circulars. The FS will also enhance reviews on future reimbursement requests, these procedures will be in place before February 29, 2012.

OIG Position (10/12/12): To reach management decision on this recommendation, FS needs to specify whether it will recover from the Nevada Fire Safe Council any amounts charged to the remaining grants that it determines are unsupported.

FS Follow-up Response: The agency is conducting a review of the Nevada Fire Safe Council grant expenditures for the period of awards for 2009. If unallowable costs are identified upon this review, the agency will take appropriate action to recover funds as required by the applicable OMB Circulars.

Estimated Completion Date: January 30, 2014

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