



# **EPA Office of Inspector General Semiannual Report to the Congress**

**October 1, 1998 through  
March 31, 1999**



## **INSPECTOR GENERAL VISION STATEMENT**

***"We are agents of positive change striving for continuous improvement in our Agency's management and program operations, and in our own offices."***

## **MISSION**

The Inspector General Act of 1978, as amended, requires the Inspector General to: (1) conduct and supervise audits and investigations relating to programs and operations of the Agency; (2) provide leadership and coordination, and make recommendations designed to (A) promote economy, efficiency, and effectiveness and (B) prevent and detect fraud and abuse in Agency programs and operations; and (3) fully and currently inform the Administrator and the Congress about problems and deficiencies identified by the Office of Inspector General relating to the administration of Agency programs and operations.

## **STRATEGIC PLAN GOALS**

- ①** Help EPA achieve its environmental goals by improving the performance and integrity of EPA programs and operations, by safeguarding and protecting the Agency's resources, and by clearly reporting the results of our work.
- ②** Foster strong working relationships.
- ③** Operate at the highest performance level.

Cover photo courtesy of National Archives

**U.S. Environmental Protection Agency  
Region 5, Library (PL-12J)  
77 West Jackson Boulevard, 12th Floor  
Chicago, IL 60604-3590**



## Foreword

**D**uring this semiannual period, we continued to work with EPA managers to resolve issues and develop solutions to problems identified through our audit and investigative work. This semiannual report identifies issues that could impact not only the environment but also human health. The three goals from our strategic plan and examples of relevant work during this six-month period are highlighted below and discussed in more detail in this report.

### Helping EPA achieve its environmental goals by improving the performance and integrity of EPA programs

We reported that because an EPA region allowed its states to use a less protective water quality criteria, water bodies with bacterial contamination may remain undetected and unreported. As a result, the public may be unknowingly exposed to harmful bacteria. EPA recently completed an action plan that includes a renewed commitment to encouraging state adoption of updated criteria. Further, EPA committed to promulgating the updated criteria with a goal of assuring criteria application to all states not later than 2003.

Our grant audits show that grant recipients have wasted federal funds, and did not provide the agreed upon product or service. This occurred in part because EPA did not adequately oversee the grants or the grant work plan did not identify expected outcomes. One audit found that EPA awarded the same grantee two grants with identical requirements and work plans, despite expecting two different work products. Our audits assisted the Agency in identifying internal control weaknesses where improvements were necessary. In response to our work, the Agency revised guidance and is continuing to train project officers.

Our criminal investigations have resulted in the prosecution of companies and individuals engaged in defrauding the government and the public by submitting false reports and payment claims for environmental tests that were never done or that contained fabricated or altered data. EPA, local governments, and individual customers rely on the accuracy of these tests to assess threats to the environment and to determine where and when remedies are needed to control hazardous wastes, toxins, and other contaminated substances that pollute our ground water, rivers, and streams. In one case, a former California laboratory supervisor pleaded guilty to falsifying data related to the cleanup of a Superfund site. In another case, a Colorado company and its owner were indicted on charges of falsifying reports regarding oil contamination cleanups.

### Fostering strong working relationships

To strengthen our relationships with Agency employees and managers, the OIG implemented an aggressive fraud awareness briefing program. Briefings have been conducted for staff working in EPA grant programs, in Superfund and contracting activities, and for re-certification classes for project officers, work assignment managers, and on-scene coordinators. We believe that this program has contributed significantly to the Agency's ability to prevent and detect fraud.



The Region 8 Administrator established a joint OIG-Region 8 agricultural team to share information and participate in various activities with the agricultural community. Although EPA and the agricultural community shared a common goal of being good stewards of the environment, the commonality of this goal was often not recognized. The OIG worked with regional staff to assess how the Region could best work with the agricultural community. The Team determined that the agricultural community needed a focal point within the Region who could provide coordination between environmental programs and present EPA goals in a manner sensitive to the agricultural community's point of view.

#### Operating at the highest performance level

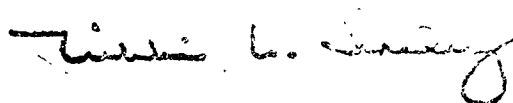
To further our efficiency and effectiveness, our new management information system, Inspector General Operations and Reports (IGOR), became operational in March 1999. IGOR will provide the Office of Inspector General with statistical information on resource allocations, audit findings and recommendations, and investigation case results. This application will also be used to interface with Agency systems to allow for sharing of data and information.

#### Agents of positive change

The OIG continued its reinvention initiatives by focusing on becoming a high performance organization. The OIG Steering Committee, which plays a key role in our reinvention initiative, developed statements of leadership philosophy, and organizational and operating system values in support of the OIG vision statement. In addition, work groups chaired by Steering Committee members developed a new OIG rewards program and made substantial progress on projects related to strategic planning, organizational communications, and process standardization.

We submitted our first Diversity Report to congressional appropriation committees on Office of Inspector General workforce diversity improvements for the first half of this fiscal year. We are committed to recruiting and maintaining a highly competent and diverse workforce. Since 1997, we have taken steps to improve the Office's diversity and address workers' concerns, and we have communicated these steps internally through the Office of Inspector General Intranet. We are especially proud that our Special Emphasis Program Manager Team was awarded the EPA Silver Medal for exceptional team efforts in developing a model management approach to improve diversity.

The Office of Inspector General remains committed to working collaboratively with all EPA employees and our external stakeholders to view environmental and management challenges as opportunities for win-win solutions.



Nikki L. Tinsley  
Inspector General



# Profile of Activities and Results

October 1, 1998 to March 31, 1999

<b>Audit Operations (\$ in millions)</b> <b>OIG Managed Reviews:</b> <b>Reviews Performed by EPA, Independent Public Accountants and State Auditors</b>	<b>Audit Operations (\$ in millions)</b> <b>Other Reviews:</b> <b>Reviews Performed by Another Federal Agency or Single Audit Act Auditors</b>
<b>October 1, 1998 to March 31, 1999</b>	<b>October 1, 1998 to March 31, 1999</b>
<b>Questioned Costs *</b> - Total \$ 112.0 - Federal 66.7	<b>Questioned Costs *</b> - Total \$1.4 - Federal 1.4
<b>Recommended Efficiencies*</b> - Federal \$ 0	<b>Recommended Efficiencies*</b> - Federal \$ 1.7
<b>Costs Disallowed to be Recovered</b> - Federal \$11.4	<b>Costs Disallowed to be Recovered</b> - Federal \$ 0.5
<b>Costs Disallowed as Cost Efficiency</b> - Federal \$ 0	<b>Costs Disallowed as Cost Efficiency</b> - Federal \$ 0
<b>Reports Issued - OIG Managed Reviews:</b> - EPA Reviews Performed By OIG: 35 - EPA Reviews Performed by Independent Public Accountants: 8 - EPA Reviews Performed by State Auditors: 0	<b>Reports Issued - Other Reviews:</b> - EPA Reviews Performed by Another Federal Agency: 101 - Single Audit Act Reviews: 64 <b>Total</b> 165
<b>Total</b> 43	
<b>Reports Resolved (Agreement by Agency officials to take satisfactory corrective action.) ***</b> 86	<b>Agency Recoveries - Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments.)**</b> \$ 17.9

<b>Investigative Operations</b>	<b>Fraud Detection and Prevention Operations</b>
<b>Fines and Recoveries (including civil) Savings/Repudiated Claims</b> \$ 0.6M	<b>Hotline Cases Opened</b> 71
<b>Investigations Opened</b> 41	<b>Hotline Cases Processed and Closed</b> 74
<b>Investigations Closed</b> 36	<b>Personnel Security Investigations Adjudicated</b> 213
<b>Indictments of Persons or Firms</b> 5	<b>Legislative and Regulatory Items Reviewed</b> 18
<b>Convictions of Persons or Firms</b> 4	
<b>Administrative Actions Against EPA Employees/ Firms</b> 19	
<b>Civil Judgments</b> 2	

\* Questioned Costs and Recommended Efficiencies subject to change pending further review in the audit resolution process.

\*\* Information on recoveries from audit resolution is provided from EPA Financial Management Division and is unaudited.

\*\*\* Reports resolved are subject to change pending further review.



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The complete text of selected audits is available through the EPA OIG internet home page. <http://www.epa.gov/oigearth>



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## Section 1-- Helping EPA Achieve Its Environmental Goals

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### Programs Audits and Investigations

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#### **Region III Water Quality Standards and Monitoring Need Improvement**

The Clean Water Act requires each state to adopt water quality standards to help control and remedy water pollution. Bacteria in water, which can cause sore throats, ear infections, meningitis, or encephalitis, were not properly assessed or reported. The Clean Water Act requires EPA to develop and publish criteria for assessing water quality based on the latest scientific knowledge. States are then to adopt these criteria, or criteria that are at least as protective as EPA's. In 1986, EPA recommended *Enterococcus* and *E. coli* as bacteriological indicators of harmful pathogens. However, as of 1998, most of the states within the Region used fecal coliform, a criteria developed in the 1960's. Because the Agency implicitly allowed the states to use this less protective criteria, water bodies with bacterial contamination may remain undetected and unreported, and the public may be unknowingly exposed to harmful bacteria.

Water quality standards in all Region III states were inadequate in 1998, even though EPA identified some deficiencies as far back as 1990. Consequently, state standards do not protect the waters as intended by the Clean Water Act. This occurred because Region III did not fully use its authority to issue written notices to the states, or elevate these issues to the EPA Administrator.

Region III also missed opportunities to review water quality standards. The Clean Water Act requires each state to hold public hearings at least every three years to review its water quality standards and submit the results to the EPA Administrator. At the time of our audit, only one Region III state had completed its review.

We recommended that the Assistant Administrator for Water work to ensure that, if states do not amend their water quality standards to include the Agency's criteria, appropriate action is taken to resolve the deficiency. We also recommended the Regional Administrator, Region III, send written notices to each state in the Region clearly identifying the inadequate standards and withhold a portion of Clean Water Act section 106 funding from any state whose Triennial Review is overdue.

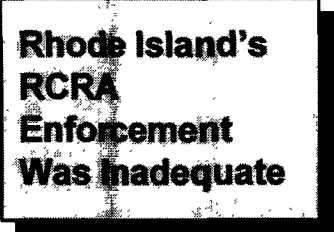


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### **Agency Action**

The final report (9100118) was issued to the Assistant Administrator for Water and the Regional Administrator, Region III, on March 31, 1999. In response to the draft report, the Office of Water and Region III generally agreed with the recommendations. The Assistant Administrator responded that EPA recently completed an Action Plan for Beaches and Recreational Waters that includes a commitment to encouraging state adoption of updated criteria, or promulgate the updated criteria where a state does not amend its standards, with a goal of assuring that the updated criteria apply in all states not later than 2003. A response to the final report is due by June 29, 1999.

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### **Rhode Island's RCRA Enforcement Was Inadequate**

Congress intended that states assume responsibility for implementing the Resource Conservation and Recovery Act (RCRA) regulations with oversight from EPA. As a result, states are primarily responsible for identifying and taking formal enforcement actions against RCRA Significant Non-Compliers (SNCs).

We found that serious violations, such as leaking battery acid and drums of hazardous waste, did not receive formal enforcement actions. Thus, the health and protection of the state's population and environment was put at risk. The Rhode Island Department of Environment Management (RIDEM) did not: (1) identify any SNCs for several years; (2) issue appropriate and timely enforcement actions; (3) ensure that violators complied with enforcement compliance schedules; (4) dedicate available resources to RCRA; and (5) develop a detailed enforcement policy and tracking system. Also, RIDEM's over-reliance on informal enforcement actions could provide non-complying facilities an economic advantage over complying facilities.

### **Agency Action**

The final report (9100078) was issued to the Regional Administrator, Region 1, on January 21, 1999. In response to the draft report, the Regional Administrator agreed with our recommendations aimed at helping RIDEM improve its RCRA program. Also, the Region agreed to consider withdrawal of RIDEM's RCRA enforcement authority, if necessary. According to the Regional Administrator, during the past several months, RIDEM has significantly improved its RCRA enforcement program and satisfied all nine of the region's criteria established for evaluating RIDEM's performance. RIDEM increased its staffing, conducted a number of inspections, issued several new penalty actions, developed an enforcement response policy, started implementing a plan to address its backlog, and improved its management of data. A response to the final report is due by May 15, 1999.

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**EPA Does Not  
Have Adequate  
Controls to  
Manage RCRA  
Permit Renewals  
Effectively**

EPA is responsible for overseeing and issuing annual grants to states that implement the Resource Conservation and Recovery Act (RCRA) hazardous waste regulations. States and EPA regions negotiate the work to be accomplished with grant funds, such as issuing and renewing permits for facilities that treat, store, or dispose of hazardous wastes. Permits are the essential instruments for assuring compliance with environmental laws.

When permits are not renewed in a timely manner, facilities may not be operating in accordance with the most recent environmental requirements and standards. Regulatory changes that occurred during the permit term would not have been incorporated into the existing permit. This allows facilities to postpone compliance with newer and often stricter standards during the renewal process, which may take years.

Without clear oversight responsibilities, or complete and accurate information, EPA cannot effectively monitor performance, identify problems or make improvements. EPA has not issued guidance describing how regions will monitor state permitting operations, or how EPA Headquarters will oversee regional performance. At the time of our fieldwork, neither Headquarters nor Region 3 had complete, accurate information on the status of the national or regional permitting universe, such as the number of facilities, the number of facilities with original permits and the number needing renewal.

While EPA intends to focus on ensuring that its goal for issuing original permits is met, it needs to prepare for its future workload of permit renewals, and develop the necessary controls to oversee this activity. Office of Solid Waste officials agreed that these issues need to be addressed, and we worked jointly to develop recommendations. We recommended that the Office of Solid Waste and Emergency Response (OSWER) issue guidance for managing RCRA permit renewals to EPA regions and the states, and ensure key renewal data is collected and used to better manage the process.

**Agency Action**

We issued the final report (9100115) to the Acting Assistant Administrator for Solid Waste and Emergency Response on March 30, 1999. OSWER officials provided oral comments on the draft report, during which they agreed with the recommendations. A response to the final report is due by June 28, 1999.

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**EPA's RCRA  
Deferral  
Program Has  
Not Maximized  
Cleanups**

Since 1983 Superfund officials have transferred cleanup responsibility to RCRA for approximately 3,000 sites. The intent of the policy was to maximize the overall number of cleanups by deferring sites to RCRA, thus preserving the CERCLA Trust Fund for sites for which no other cleanup authorities were available.

Since only 29 percent of the deferred sites are in the RCRA corrective action workload, the remaining 71 percent are not likely to be cleaned up in the near future. The Resource Conservation and Recovery Act Information System (RCRIS) indicates that less than 2 percent of deferred sites have been cleaned up. About one-third of the deferred sites in our sample would be potentially eligible for placement on the National Priorities List.

Our review of sites not in the corrective action workload found that in the four regions sampled almost 67 percent (210 of 313) of the sites should not have been deferred from Superfund to RCRA. Deferral decisions were made without sufficient communication between RCRA and Superfund program officials to determine which authority would best address the site. In addition, deferral guidance was not issued until the program was well underway, and there was either misinterpretation or inconsistent application of the deferral policy. The sampled sites have been in EPA's inventory for 17 years on average, and less than one percent of them have been cleaned up.

Almost 10 percent of the total number of sites coded as deferred to the RCRA program were not found in RCRIS because of coding errors, system incompatibilities with CERCLIS, insufficient communication between the two programs, and weak deferral procedures. EPA is generally unaware of the status of cleanups. For some sites, the states informed us that actions had been taken or were underway which were not reflected in RCRIS.

We recommended that the Acting Assistant Administrator for Solid Waste and Emergency Response work with states to update site characterizations; determine which program has available resources and legal authority to address sites starting with those that pose highest risk; improve communication and collaboration between Superfund and RCRA officials; and strengthen procedures for deferring sites.

#### **Agency Action**

We issued the final report (9100116) to the Acting Assistant Administrator for Solid Waste and Emergency Response on March 31, 1999. In response to the draft report, the Acting Assistant Administrator indicated that the recommendations would improve the efficiency of the deferral process, and OSWER is prepared to reassess many of the site management decisions to ensure that EPA and state responses protect human health and the environment. A response to the final report is due June 30, 1999.



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**Improved  
Controls Over  
Critical  
Operating  
System  
Libraries Are  
Needed**

EPA operates a mainframe computer at the National Computer Center which supports large-scale data processing and provides a national data repository for Agency environmental, administrative, and scientific systems. EPA's major financial systems are also stored and maintained on the mainframe. Loss of mainframe processing capability would have a material impact on the Agency's ability to carry out its environmental mission.

EPA is not maintaining and reviewing critical operating libraries such as the Authorized Program Facility (APF) in a timely manner. The APF is a mechanism for controlling programs which are specifically designated as "authorized". APF authorized programs can bypass all security and password checks. We identified libraries that no longer require APF authorization. Without effectively managing the contents of the APF, EPA management cannot be assured programs running in an authorized state will adhere to system integrity requirements or Agency integrity guidelines. These weaknesses resulted from the lack of a process to review APF libraries periodically.

In addition, EPA is not adequately controlling the number of users who can alter and update APF libraries. We identified users who no longer needed this type of access to perform their current jobs. Also, we identified user IDs assigned to positions and not individuals. Without effective access controls to the APF, a knowledgeable user could circumvent or disable security mechanisms to modify programs or data files without leaving an audit trail. These weaknesses were caused by the lack of a review process to revoke user access.

We recommended that the Director, Enterprise Technology Services Division develop and implement a process for (1) periodically reviewing APF libraries and removing libraries that no longer require APF authorization, and (2) reviewing users' access capabilities to APF libraries, and assigning all user IDs to individuals.

#### **Agency Action**

The final report (9300001) was issued to the Director, Enterprise Technology Services Division on January 28, 1999. In response to the draft report, the Director agreed with our recommendations and provided planned corrective actions and milestone dates for completion. Specifically, the libraries that no longer required APF authorization were removed, and the software installation procedures will be modified to include an APF review. The contractor will be instructed to revoke all user IDs when employees leave the company, and all user IDs will be assigned to individuals. During the audit the contractor was very responsive in initiating and implementing system changes including removing inappropriate libraries and user IDs. A response to the final report was due April 28, 1999.



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**Colorado Needs  
to Improve Its  
Water Quality  
Standards,  
Monitoring and  
Reporting**

The Clean Water Act requires each state to adopt EPA-approved water quality standards to help control and remedy water pollution. Overall, Colorado developed a water quality program that protects state waters. Colorado was very proactive in developing water quality criteria where EPA had not. In other areas, however, Colorado needed to increase its efforts. Colorado did not adopt the national swimmable goal for all state waters, or conduct required studies showing the swimmable goal was not attainable. Colorado adopted water quality criteria for some pollutants in certain waters that were less restrictive than the criteria applied to most other waters in the state. For these pollutants, Colorado did not demonstrate that the criteria were still protective of the uses of the waters.

Colorado's current monitoring program employed appropriate monitoring methods and procedures to test and assess the waters of the state, although, like other states, Colorado has faced difficult challenges in maintaining its monitoring program. Colorado relied on other agencies to monitor its waters for organic pollutants but did not have a procedure to obtain and use this data. Colorado's water quality reports varied in completeness and accuracy. EPA uses the assessments to measure performance in achieving its goals of clean and safe water, and to report to Congress.

Region 8 implemented effective procedures to approve and evaluate Colorado's water quality standards, although it did not have procedures to oversee and evaluate water quality testing, assessing, and inventory reporting. Region 8's priorities in the oversight of the Colorado water quality program reflected the Office of Water's priorities. Colorado, in turn, historically has placed more attention on the development of standards than on monitoring, assessing, and reporting activities.

We recommended that the Regional Administrator, Region 8, work with Colorado to improve its support for water quality standards decisions; assist Colorado in increasing the comprehensiveness of its state water quality monitoring program; persuade Colorado to include complete, accurate information in its water quality reports; and develop procedures to oversee and evaluate Colorado's water quality testing, assessing, and reporting.

**Agency Action**

The final report (9100093) was issued to the Regional Administrator, Region 8 on March 10, 1999. In response to the draft report, the Region and Colorado generally agreed with the recommendations. Region 8 documented several planned technical and program support activities and commitments to work with and support Colorado programs. Colorado welcomed assistance in its ongoing efforts to enhance its water quality program.



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Colorado agreed more documentation was desirable to support decisions, including preparing analyses at triennial reviews for maintaining ambient standards in light of changed conditions since the adoption of initial standards. Also, Colorado committed to improving the quality of its reporting. A response to the final report is due by June 10, 1999.

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**Benefits  
Recipient  
Pleaded Guilty  
and Was  
Ordered to Pay  
\$500 Restitution**

On December 16, 1998, Betty Morgan, a Louisiana recipient under the methyl parathion relocation program, pleaded guilty in Criminal District Court, Parish of Orleans, Louisiana, to an amended bill of information charging her with theft of less than \$100. She requested immediate sentencing and was sentenced to 1 day in the parish prison with credit for time served from the date of her arrest and ordered to pay \$500 restitution. Morgan had been arrested and was indicted in July 1998 on charges that she was overpaid more than \$3,000 in benefits based on her false certification that eight occupants resided in her residence. Under the relocation program (funded by EPA's Superfund and administered locally by the U.S. Army Corps of Engineers), EPA pays relocation costs and related subsistence for residents whose homes have been contaminated with methyl parathion, a toxic pesticide licensed for agricultural use and banned for indoor use. Benefit levels are based on the number of occupants residing in the contaminated homes. EPA is also paying for the contamination cleanup costs. Cleanup costs for Morgan's residence were \$26,946.

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**Two Convicted  
of Attempt to  
Commit Theft  
by Deception,  
Making False  
Statements,  
and Forgery**

On March 10, 1999, a jury in Fannin County, Georgia, found Gary L. Jones and Nadine E. Starks each guilty of one count of criminal attempt to commit theft by deception, one count of making false statements, and one count of first degree forgery. Jones and Starks were indicted on May 11, 1998, on those charges stemming from allegations that Jones represented himself to an Ellijay, Georgia, homeowner as an employee of Atlanta Testing, Inc. (ATI); told the resident that ATI had contracted with EPA to locate and remove canisters containing toxic waste; and stated that he had been directed by EPA to perform soil tests under the concrete slab in their garage. The charges also alleged that Jones presented to the homeowner a business card and letter purportedly from an EPA employee but which had been forged by Starks, stating that Jones had been directed to perform the remedial work. Sentencing is scheduled for April 22, 1999. *This investigation was conducted jointly by the EPA OIG and the Fannin County (Georgia) Sheriff's Office.*

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## Audit Update

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### **Audit Helps Texas Colonia Residents Obtain Water and Sewer Connections**

On February 18, 1999, the *Austin American-Statesman* reported that the Texas Water Development Board (the Board) had adopted a new policy allowing federal funds to help Colonia residents with water and sewer connections. Colonias are small communities located along the United States-Mexican border which are often impoverished and characterized by substandard housing and poor living conditions. The new policy was initiated by EPA following the completion of an OIG survey of Colonia wastewater treatment projects. The report, *Survey of Completed Texas Colonia Wastewater Treatment Assistance Program Projects*, issued September 21, 1998, said that many residents of Colonias could not connect their homes to wastewater treatment facilities because of the cost. The report stated that there were no provisions under the assistance program to fund connection-related costs. As a result, most residents must rely on resources from other state and federal programs. However, conflicting state or federal requirements under these other programs may prevent some Colonia residents from being eligible for funds. In this situation, residents are unable to connect to the system because they cannot afford the fees on their own.

The report contained a recommendation to EPA for the development of affordable financial strategies for delivery of services to the residents. In response, the Region stated that it would work with the Board to allow EPA grant funds to be used to pay for the cost of connections. The Region's efforts were realized on February 17, 1999, with the Board's adoption of the new state policy. The new policy is intended to allow \$10 million to \$12 million in federal money to be spent on household connections to drinking water and sewer lines. Officials estimate that about 10,000 households, with approximately 40,000 to 50,000 people, could benefit from the new policy.

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**Update On  
Agency  
Actions To  
Comply With  
The Federal  
Financial  
Management  
Improvement  
Act**

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## **Financial Management**

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In our report on *EPA's Fiscal 1997 And 1996 Financial Statements* (8100058, dated March 2, 1998), we reported that, as of September 30, 1997: (1) EPA's Core Financial Systems did not have application security plans required by OMB Circular A-130, Management of Federal Information Resources; and (2) systemic problems caused delays in billing responsible parties for Superfund oversight costs. The Federal Financial Management Improvement Act (FFMIA) requires us to report, in our Semiannual Report to the Congress, on the remediation plan to bring the financial management systems into compliance.

The Comptroller sent the remediation plan to OMB on March 31, 1999. In this plan, the Comptroller indicated that all corrective actions but one were completed.

### **Agency Efforts to Prepare Application Security Plans**

Our fiscal 1998 financial statement audit work through March 31, 1999, indicated corrective actions had been completed such as preparing application security plans for all systems for which the CFO is responsible, and issuing internal operating procedures for three core financial systems. As of March 31, 1999, we had not completed our fiscal 1998 financial statement audit work, and, accordingly, had not determined the adequacy of these actions. We will provide an update of the status of corrective actions taken in our next Semiannual Report to the Congress.

### **Agency Efforts to Bill Superfund Oversight Costs**

At the end of fiscal 1997, EPA had \$162 million of unbilled Superfund oversight costs. During fiscal 1998, EPA committed to addressing the core problems causing billing delays and made billing of oversight costs a priority. The Comptroller and Director, Office of Site Remediation Enforcement, in conjunction with regional offices, increased the Agency's cost recovery accounts receivable 42% from \$485 million in 1997 to \$691 million at the end of 1998. Further, the Agency's estimate of unbilled oversight costs decreased 56% to \$71 million in 1998.

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**EPA's  
Chesapeake  
Bay Program  
Office (CBPO)  
Needs to  
Strengthen  
Procedures for  
Awarding  
Cooperative  
Agreements**

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## **Assistance Agreement Audits and Investigations**

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The Local Government Advisory Committee (LGAC) formed a workgroup to examine the feasibility of establishing a non-profit entity to further assist local governments in implementing Chesapeake Bay protection and restoration activities. Before completion of this study, the Center for Chesapeake Communities (CCC), a nonprofit organization, was incorporated and the LGAC Vice Chair became the Executive Director of CCC. The timing of the incorporation prompted some LGAC members to request an OIG audit to determine if a conflict of interest existed.

Soon after the CCC was incorporated, EPA awarded it a noncompetitive cooperative agreement to fund organizational start-up costs, prepare a local government training module, and plan a local government summit. Additional funding was provided to conduct activities that would enhance CCC's ability to provide technical assistance, and complete various projects. Almost one-half of the cooperative agreement funds provided to the CCC were used for a contract award to obtain LGAC support.

EPA awarded the noncompetitive cooperative agreement to the CCC without adequate justification which created an appearance of preferential treatment. The CCC Executive Director acted favorably toward a contractor by awarding it two contracts after this same contractor absorbed costs totaling approximately \$2,300 for incorporating the CCC. This action compromised the integrity of the CCC's contract award process and violated EPA's regulations. We also found that neither the CCC nor its contractor had adequate financial management systems in place to properly account for Federal funds.

In addition, EPA awarded cooperative agreements to intermediaries, which in turn awarded contracts to provide LGAC support services. EPA officials explained that by awarding cooperative agreements to obtain the services of an LGAC support contractor, it was able to avoid Federal procurement regulations, making the procurement for support services easier. However, while easing the process for awarding the support contracts, EPA actions were not consistent with the intent of the Federal Grant and Cooperative Agreement Act.

We recommended that the Regional Administrator, Region III, terminate the existing cooperative agreement awarded to the CCC and, if services are needed, attempt to award a new cooperative agreement competitively; obtain LGAC support services directly, without using an intermediary; discontinue all payments to the CCC and review all costs already incurred under the cooperative agreements; and before awarding assistance agreements and allowing advance payments, ensure that recipients have adequate internal controls and financial management systems.



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## Agency Action

The final report (9100117) was issued to the Regional Administrator, Region III, on March 31, 1999. In response to the draft report, the Region concurred with virtually all the recommendations. Region III has already taken corrective actions including: a site review and evaluation of the CCC's financial management and records systems; development of a management plan for competing nonprofit grants in the CPBO; issuance of the first Request for Proposals under the new competitive procedures outlined in the management plan; and initiation of a vulnerability assessment for all Chesapeake Bay Program grants. A response to the final report is due by June 30, 1999.

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### **EPA Awards Grantee Two Grants With Identical Requirements**

In June 1994, the Center for Environment, Commerce & Energy (Center) issued a report which quantified discharges of pollution into the air, water, and land of the District of Columbia. EPA Headquarters Grants Administration Division (GAD) awarded an Office of Environmental Justice (OEJ) grant for \$30,000 to the Center in April 1995 to expand on the earlier report by including statistics on race and income. In August 1995, Region 3's Chesapeake Bay Program Office (CBPO) awarded the Center a \$140,000 grant to focus its efforts on informing the District's communities about the types and amounts of pollution in their neighborhoods.

EPA awarded the same grantee two grants with identical requirements and work plans, despite expecting two different work products. This occurred, in part, because the work plan was too general and included tasks related to both work products. There are no controls between EPA regions and Headquarters to ensure that one grantee does not receive money twice for the same work. About one month after the award of the second grant, the Center notified the CBPO and OEJ of the duplicate work plans and suggested two separate reports be produced. Neither CBPO nor OEJ staff responded to the Center's proposed solution or took action to differentiate between the work plans. This lack of clear direction, coupled with ineffective monitoring by EPA project officers, resulted in neither program office receiving the work product it expected.

The Center's accounting system did not adequately support its grant expenditures in accordance with federal regulations. We questioned \$169,219 of the \$179,000 in project expenditures under the two grants.

We recommended that the Regional Administrator, Region III, and the Assistant Administrator for Enforcement and Compliance Assurance hold the project officers and approval officials accountable for grant work plans specifically, administering the grant effectively, and monitoring the grantee's performance. Also, we recommended that language be included in grant applications and agreements to have the grantee certify that it has no other EPA-funded awards that include the same scope of work, and that the Center be required to repay EPA \$169,219.



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### Agency Action

The final report (9300006) was issued to the Regional Administrator, Region 3; the Assistant Administrator for Enforcement and Compliance Assurance; and the Director, Grants Administration Division on February 17, 1999. In response to the draft report, there was general agreement with the findings. However, there was not consensus with respect to the recommendations. A response to the final report is due May 18, 1999.

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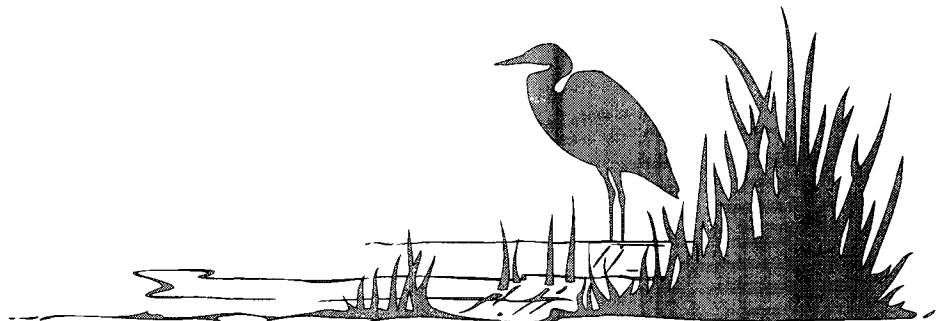
#### **EPA Recovers \$176,666, Representing Interest on Overpaid Grant Funds**

On February 4, 1999, EPA received a payment of \$176,666 from the City of Detroit which represents the accrued interest resulting from an overpayment of EPA grant monies to the Detroit Water and Sewer District (DWSD). This recovery was the result of the joint efforts of OIG investigators and auditors, which disclosed a duplicate payment of \$999,999 issued by EPA and held improperly by DWSD for over 2½ years. This action had permitted the interest to be earned without benefit to the Government. Based on the results of this investigation, EPA previously offset \$999,999 against a subsequent claim under the grant, realizing a cost savings.

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#### **EPA Recovers \$4,214 in University of Minnesota Settlement With False Claims Act**

On November 19, 1998, the United States Attorney's Office for the District of Minnesota entered into a civil settlement agreement with the Board of Regents of the University of Minnesota (UM) to resolve all claims stated in an amended complaint filed in December 1996. In June 1998, a summary judgment was issued concerning the EPA portion of the complaint. In the judgment, the Regents were found liable for misusing \$4,345 in EPA grant funds. These funds were placed in a general account at UM and utilized for other than the EPA grant project. EPA recovered this amount less an administrative fee. The investigation was initiated as a result of a False Claim Act qui tam lawsuit filed by James F. Zissler, a former employee of UM, alleging that UM officials had misapplied funds from numerous federal grants, including those from the Food and Drug Administration and the National Institutes of Health. The total settlement amount paid by UM was \$32,000,000.





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## Construction Grants

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EPA reported Construction Grants Closeout as a material management control weakness in its Fiscal 1998 Integrity Act Report to the President and Congress. The OIG, in consultation with EPA, implemented a revised audit strategy several years ago to assure that the most vulnerable grants were subjected to audit and to assure that the audit process did not delay the construction grants' program closeout. As of March 1999, there were 28 grants totaling \$989 million which are expected to receive OIG review. The majority of these grants are in Regions 1, 2, and 3. Summaries of some audits with significant issues follow.

**Over \$86  
Million  
Questioned  
on Hudson  
County, New  
Jersey  
Projects**

EPA awarded two grants totaling \$60,379,612 for the construction and expansion of wastewater treatment facilities. The grantee claimed \$22,091,905 of ineligible costs under the grants, including:

- \$18,268,010 of construction and other project costs that were in excess of the costs approved for inclusion under the grants by the New Jersey Department of Environmental Protection (NJDEP);
- \$2,200,925 of project inspection fees that were incurred for ineligible activities such as permits and redesign or were in excess of maximum allowable costs approved by the NJDEP;
- \$1,785,680 of engineering fees that were not approved by NJDEP, or were not procured in accordance with EPA requirements;
- \$996,550 of administrative costs consisting of ineligible legal fees and indirect costs, and other costs that were not allocable to the project; and
- \$1,159,260 of additional eligible design allowance costs that were not claimed by the grantee. These additional costs were offset against questioned ineligible costs.

We also questioned \$64,507,499 of unsupported costs which included \$33,800,342 of unsettled litigation-related costs and \$27,252,679 of construction and project improvement costs that did not meet effluent discharge standards, as required by special grant conditions.

We recommended that the Regional Administrator, Region 2, not participate in the federal share of the ineligible costs (\$12,150,548), and obtain and evaluate any additional documentation to determine the eligibility of the federal share of the unsupported costs (\$35,479,124).



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### **Agency Action**

The final report (9100066) was issued to the Regional Administrator, Region 2, on December 28, 1998. A response to the report was due by March 28, 1999.

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#### **\$1.8 Million Questioned on Anne Arundel County, Maryland Project**

EPA awarded a construction grant totaling \$12,448,500 for the construction of sewers, pump stations and force mains to serve nine communities in Anne Arundel County. The grantee claimed \$1,824,458 of ineligible costs under the grant, including:

- \$1,151,690 of construction costs that were either determined to be ineligible by the Maryland Department of the Environment (MDE) or were claimed due to a clerical error;
- \$667,943 of inspection, engineering and indirect costs claimed in excess of the amounts approved by MDE; and
- \$4,825 of project income that was not credited by the grantee to the project.

We also questioned \$1,720 of unsupported administrative costs.

We recommended that the Regional Administrator, Region 3, not participate in the federal share of the ineligible costs (\$1,368,344), and obtain and evaluate any additional documentation for the federal share of the unsupported costs (\$1,290).

### **Agency Action**

The final report (9300005) was issued to the Regional Administrator, Region 3, on February 4, 1999. A response to the report is due by May 5, 1999.

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#### **Almost \$6.8 Million Questioned on Puerto Rico Projects**

EPA awarded four construction grants totaling \$41,860,428 for the construction of wastewater treatment facilities, including primary and secondary treatment plants, sewer lines, force mains, and pump stations. The grantee claimed \$1,274,888 of ineligible costs under the grants, including:

- \$546,373 of start-up services which were in excess of the costs allowed under EPA policy;
- \$373,469 of bid bond forfeitures that were received by the grantee but were not credited to the project in the final claim;
- \$317,441 of project inspection fees outside the scope of the project; and



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- \$37,605 construction, engineering and administrative costs that were not eligible under the project.

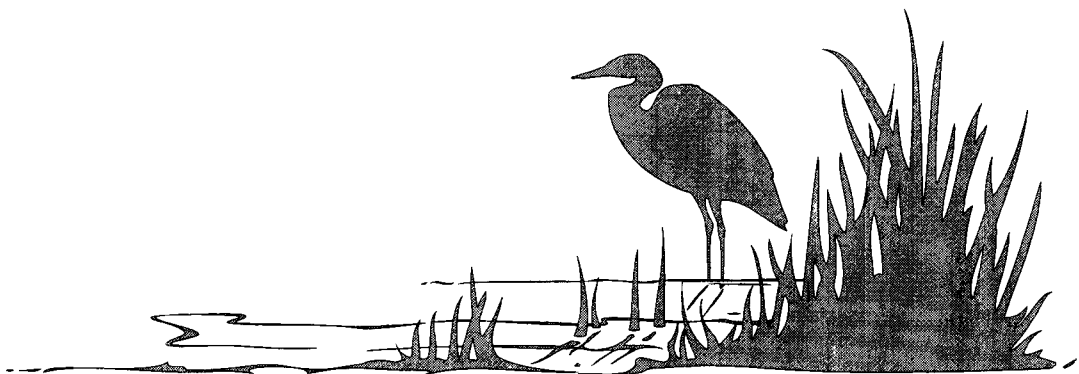
We also questioned \$5,506,071 of unsupported construction, engineering and administrative costs.

We recommended that the Regional Administrator, Region 2, not participate in the federal share of the ineligible costs (\$956,166), and obtain and evaluate any additional documentation from the grantee for the federal share of the unsupported costs (\$4,129,554).

#### **Agency Action**

The final reports (9100073 and 9100076) were issued to the Regional Administrator, Region 2, on January 5, 1999 and January 13, 1999, respectively. Responses to the reports were due by April 5, 1999 and April 13, 1999.

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## Contract Investigations

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**Former  
Laboratory  
President to  
Serve 15  
Months in  
Prison and to  
Pay \$331,471  
in Fines and  
Restitution**

On October 21, 1998, William L. Hopkins, Jr., former president of Hess Environmental Laboratories, Inc. (Hess), was sentenced in U.S. District Court, Eastern District of Pennsylvania, to 15 months imprisonment, three years supervised release, and ordered to pay a \$40,000 criminal fine, \$291,071 in restitution, and a \$400 special assessment. The sentencing follows a July 1998 guilty plea by Hopkins to charges of conspiracy to defraud the United States, making false statements to EPA, violating the Clean Water Act, and mail fraud. Hopkins knew that Hess did not have the proper equipment to perform certain environmental tests, yet directed Hess personnel to continue the fraudulent scheme to prepare, bill for, and mail false reports to customers for tests that were never performed and that contained fabricated results. The conspiracy affected schools, hospitals, local governments, and businesses, including the Tobyhanna Army Depot in Tobyhanna, Pennsylvania, which paid Hess to test samples for hazardous wastes, contamination of ground water, and for pollutants discharged into rivers and streams. These customers, as well as EPA and the Pennsylvania Department of Environmental Protection, relied on the tests to assess threats to the environment and to determine where and when remedies were needed to control hazardous, toxic, or contaminated substances. Previously, as a result of this investigation, Hess was closed, was sentenced to pay over \$5.5 million in restitution, and was placed on 5 years probation. *This investigation was conducted jointly by the EPA OIG, the EPA Criminal Investigation Division, and the U.S. Army Criminal Investigation Command.*

**Corporation  
Agrees to Pay  
\$50,000  
Settlement**

On November 11, 1998, the United States Attorney's Office for the Middle District of North Carolina entered into a civil settlement with Unisys Government Systems, Inc. (Unisys), to settle false claims charges involving premature billing to the government under four contracts with EPA and the National Aeronautics and Space Administration (NASA). The investigation was initiated to determine if Unisys had submitted claims to EPA and NASA for payment to its subcontractors when, in fact, Unisys had not yet paid those subcontractors. Such premature billing is in violation of Section 52.216-7 of the Federal Acquisition Regulation (FAR). Unisys agreed to pay the government \$50,000 and has implemented specific billing policies and procedures to ensure compliance with the FAR. *This investigation was conducted jointly by the EPA OIG and the NASA OIG.*



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**Former  
California Lab  
Supervisor  
Pleads Guilty  
to Falsifying  
Laboratory  
Testing Data**

On November 19, 1998, Gene Kong Lee, a former supervisor at Anlab Analytical Laboratories (Anlab), a Sacramento company that specialized in water and wastewater testing, pleaded guilty to one count of falsifying laboratory test data. In July 1998, Lee was indicted in U.S. District Court, Eastern District of California, on charges that he falsified test results and filed a false claim of \$10,500 to EPA for payment for the work. The testing was performed during the cleanup of a Superfund site in Davis, California. Lee, a gas chromatography/mass spectrometry supervisor at Anlab, manipulated the computer-generated test data in order to make the results appear to meet quality assurance criteria and to avoid performing quality control measures. Also, Lee falsely reported the sampling analyses as having been done within specified holding times when in fact he knew that this was untrue. Previously, two operators Lee supervised at Anlab, Xiaomang Pan and Brett Huffman Williams, pleaded guilty to misdemeanor charges of fraudulent demand and aiding and abetting for their action in falsifying the laboratory results by manipulating the data. *This investigation was conducted jointly by the EPA OIG and the EPA Criminal Investigation Division.*

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**Company and  
Owner  
Indicted on  
Charges of  
Falsifying  
Reports**

On December 17, 1998, Enviro25 Environmental Services, Inc. (Enviro25), and its owner, Susan A. Summers, were indicted in District Court, City and County of Denver, Colorado, on 16 counts of forgery and 17 counts of attempting to influence a public servant. Summers alone was also charged with one count of violating the Colorado Organized Crime Control Act. Enviro25 was started by Summers three months after she left a job with the Colorado Department of Health (CDH) where she worked on developing guidance documents for underground petroleum storage tank owners and operators and on enforcement protocols. Enviro25 provided environmental consulting services, including the cleanup of contaminated or suspected contaminated sites. The company also assisted clients with regulatory matters before the CDH and the Colorado Department of Labor and Employment (CDLE), including applications for reimbursement from the Petroleum Storage Tank Fund, development of corrective action plans, and applications for site closure. Summers and her company are accused of withholding truthful information and falsifying documents submitted to the CDLE and the CDH (now known as the Colorado Department of Public Health and Environment) regarding oil-contamination cleanups at eight Colorado sites from March 1992 to July 1996. *This investigation was conducted jointly by the EPA OIG, the EPA Criminal Investigation Division, and the Colorado Secretary of State's Office of Investigations.*

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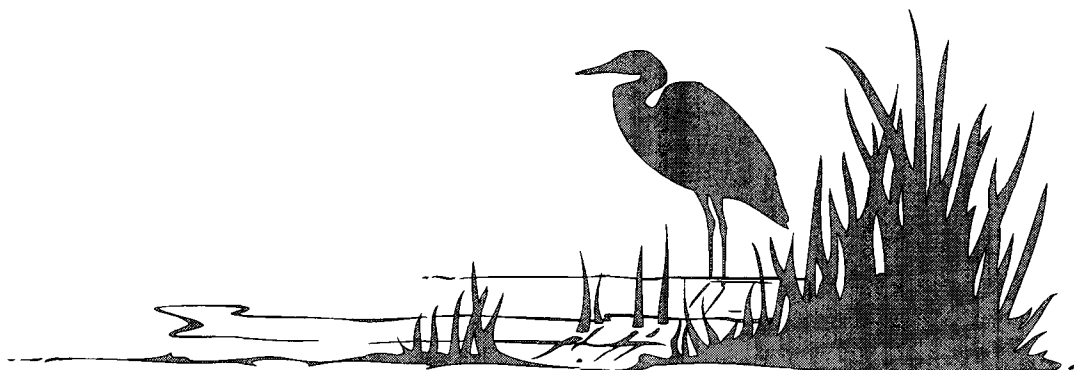


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**California  
Laboratory  
Owner/Officer  
Charged with  
Submitting  
False  
Analytical  
Data**

On February 3, 1999, Blayne Hartman, owner and officer of Transglobal Exploration Geochemistry, was indicted in U.S. District Court, Central District of California. The indictment charges that Hartman submitted analytical data relating to soil gas samples collected at the Mayco Pump property, located in the San Fernando Valley Superfund site, to the Los Angeles Regional Water Quality Control Board. Hartman claimed that the laboratory equipment had been properly calibrated to analyze for various contaminants when, in fact, he knew that the equipment had not been properly calibrated and had falsified a portion of the calibration data. On February 11, 1999, EPA suspended Hartman from participation in federal assistance, loan, and benefit programs and from all federal procurement. Between February 16 and March 1, 1999, EPA also suspended Transglobal Exploration Geochemistry and suspended Transglobal Exploration & Geoscience, Inc.; Transglobal Environmental Geochemistry, Inc.; and HP Labs as affiliates of Hartman. Subsequently, the suspension of HP Labs was lifted as the result of an interim compliance agreement.

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## Employee Integrity Investigations

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### **EPA Employee Terminated; Pleads Guilty to Theft of More Than \$40,000 of Equipment; \$10,500 in Equipment Recovered to Date**

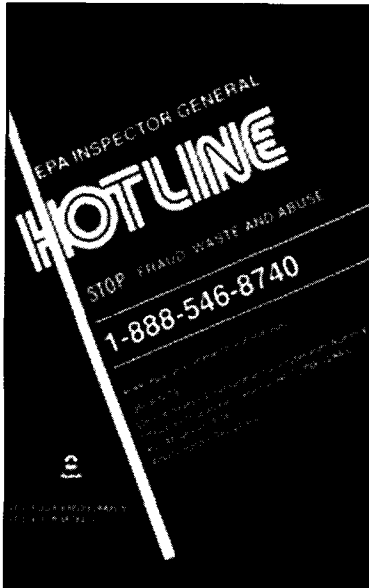
On March 17, 1999, a criminal information was filed in U.S. District Court, District of Maryland, charging a former EPA employee with stealing and converting to personal use a Government VISA credit card and office equipment belonging to EPA. The Government's loss attributable to the theft exceeds \$40,000. While an EPA employee, the defendant, a GS-14 Information Management Specialist, made unauthorized purchases of computers and computer-related equipment using a Government-sponsored business account VISA card. The employee also stole EPA computers that were legitimately purchased for EPA. The employee then sold the purchased and stolen computers and equipment for cash for personal use. The sales were made to local pawn shops and individuals. In two instances, it appears that co-workers were victimized by the defendant selling them converted equipment that the employee represented as personal property. To date, investigative efforts have led to the recovery of over \$10,000 worth of the equipment from local pawn shops and individuals. Based upon the facts disclosed by the OIG investigation, the employee was terminated and on March 31, 1999, the defendant pleaded guilty to one count of theft of government property. Sentencing on the criminal conviction is scheduled for June 16, 1999.

### **Former Employee Pleads Guilty to Making False Statements to Obtain Benefits under the Federal Employees' Compensation Act**

On January 5, 1999, Rochel Haigh Blehr, a former EPA employee, pleaded guilty in U.S. District Court, Northern District of Georgia, to a one-count criminal information charging her with making a false statement and representation to obtain benefits under the Federal Employees' Compensation Act (FECA). Blehr had filed a benefits claim for loss of work due to exposure to formaldehyde in the office environment. Blehr, a former EPA computer data technician, is the sole owner and publisher of a local newspaper, *The Environmental Times*, incorporated in the State of Georgia as a domestic for profit corporation. The information charged that Blehr falsely represented that she had turned over all responsibilities for overseeing the newspaper to a vice president of the company when, in fact, she knew she had not done so. *This investigation was conducted jointly by the EPA OIG and the Department of Labor OIG.*



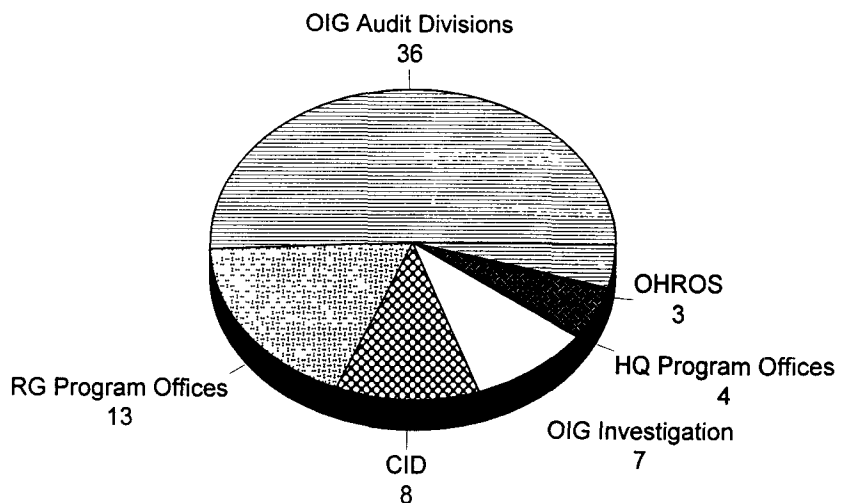
## Hotline Activities



The OIG Hotline has made significant progress in establishing an effective program. We now have in place a standard procedure for processing Hotline complaints. An Office of Inspector General Manual chapter was approved and a flow chart developed. Each complaint is reviewed by a team of auditors, evaluators, and criminal investigators as conditions warrant. All matters significant enough to require a response are monitored by the team until resolved. In addition, we have established liaison with several key groups who receive the most complaints, such as the Criminal Investigation Division and the Office of Human Resources. We have also had success in expanding the market for the Hotline. We established a toll-free number to improve access to the Hotline, and we created and distributed a new poster. The poster and matching business cards are printed in EPA's colors and are more attractive to draw attention. The Office of Acquisition Management agreed to require that all contractors display the poster on their premises.

During the next semiannual period, we plan to revamp and expand the OIG Hotline web page with the assistance of the OIG Information Technology Facilities Management team. Plans for our new web page format include links to EPA program office Hotlines, the EPA locator, other OIG hotlines, and State environmental offices. We also plan to clarify the types of problems that should be reported in order to promote the identification of significant matters warranting investigative, audit, or management attention.

During the reporting period, the OIG Hotline opened 71 new cases and closed 74 cases including 17 from the previous period. The pie chart shows the distribution of hotline case referrals.



OFFICE OF INSPECTOR GENERAL



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## Section 2-- Fostering Strong Working Relationships

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### Advisory and Assistance Services

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#### **Centers Help With Federal Environmental Requirements**

EPA established nine Compliance Assistance Centers to help small and medium-sized businesses and local governments better understand and comply with federal environmental requirements. Each Center is targeted to a specific sector.

Federal funds were used for start up, development, and initial operation. EPA intended that the Centers would move towards self-sufficiency through financial support of the industries they serve. However, the ability of Centers to generate income (e.g. through advertising, product and service sales, industry contributions, etc.) has been difficult. Further, the ability of Centers to raise funds varies greatly depending on their target audience. EPA asked the OIG to identify the conditions under which users of GreenLink, the center for automotive service and repair industry, would financially support the Center. We interviewed GreenLink users and found a wide variety of opinions on ways to generate income. We provided the information to OECA officials on January 14, 1999.

#### **Joint Review Provided Suggestions to Improve Environmental Results in the Agricultural Sector**

At the request of EPA Region 8, the OIG worked with regional staff to complete an assessment of how the Region could best work with the agricultural community. The agricultural community includes a unique group of individuals and entities with changing demands due to new initiatives such as the Clean Water Action Plan. EPA and the agricultural community share the common, broad goal of being good stewards of the environment. However, the commonality of this goal was often not recognized by EPA or the agricultural community. For example, while a farmer may be concerned that the stream running through his property is eroding valuable farm land, EPA may be concerned that stream bank erosion damages the health of the stream.

The Region 8 Regional Administrator established an agricultural team to share information and participate in various activities with the agricultural community. The joint OIG-Region 8 team believed the agricultural community needed a focal point within the Region who could present EPA goals in a manner sensitive to the agricultural community's point of view. This focal point would also provide coordination between environmental programs and provide Region 8 staff with information about how EPA and the agricultural community could work together to meet their common goals. The team also discussed the benefits of involving the U.S.



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Department of Agriculture's National Conservation Service in meeting the Region's goal of building relationships with the agricultural community.

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**Joint  
Performance  
Partnership  
Grant  
Management  
Assistance  
Reviews  
Identified  
Lessons Learned**

Over the last two fiscal years, the OIG divisional audit offices and EPA regional staff have conducted joint reviews to evaluate state and regional performance partnership grants (PPG) implementation. The goal was to assess the progress and identify lessons learned so EPA can take corrective action to minimize any negative effect on overall performances.

A PPG is a multi-program grant made to a state or tribal agency from funds allocated and otherwise available for a specific environmental program. A primary purpose of PPGs is to give recipients increased flexibility to address their highest environmental priorities, while continuing to address core program commitments. EPA designed PPGs to encourage improved environmental performance by linking program goals with program outcomes and by increasing the use of environmental indicators and program performance measures.

As of March 31, 1999, three joint reviews were completed and five others were in progress. The review completed in the last six months included similar issues found in the two previously completed reviews. These issues included the need for EPA and the states to develop more outcome-based performance measures, to gather sufficient and appropriate data on performance measures and indicators, and to tie what the states will measure to environmental goals.

The PPG has provided the state with flexibility for such things as (1) organizing the agreement on the basis of its own priorities, (2) obtaining funds for multimedia areas, and (3) establishing a two-year agreement based on the state's fiscal year. Switching to a two-year agreement allowed the state to focus on implementation rather than document development. However, the state's financial management system has hindered its ability to fully realize the flexibility the process provides.

The review team also found similar difficulties in the state and regional efforts to achieve PPG goals and demonstrate improved environmental performance. Changes in a state's administration or staff can result in changes in philosophy or a loss of knowledge, which may result in less support from management and new priorities that are not reflected in the agreement. In addition, the transition from activity-based measures to environmental indicators is an issue that is being struggled with on a national basis. The movement to indicators has been difficult due to the lack of base measurement data; the need for a broader, multimedia perspective; and the increased burden created for staff in collecting different information and developing new databases. The state financial management system is also a barrier to flexibility because it does not have the capability to track funds the way the PPG was structured.



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We suggested EPA and the states continue working together to identify performance measures with better indicators of environmental outcomes and short-term goals. The states should identify their desired environmental conditions and correlate these to the performance measures in the Performance Partnership Agreement. Additionally, the Agency should work with the states to clarify procedures for carryover funds and the need to meet reporting commitments. When additional reviews are complete, we plan to issue a memorandum to the Office of Congressional and Intergovernmental Relations summarizing the results and offering suggestions for improving overall program performance.

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### **Financial Contract Audits**

The OIG provides independent contract audits and financial advisory services to EPA's Office of Acquisition Management (OAM) and to other government agencies. During this reporting period, the OIG maintained contract audit cognizance for 10 contractors where EPA contracts represent the majority of the contractors' total auditable dollars. We performed all contract audits at these contractors including incurred cost audits, proposal reviews, and operation audits. In addition, we assisted OAM in developing negotiation objectives, developing its contract-related policy, and analyzing contractor responses to reports.

In one instance, we performed procedures, agreed to by OAM, to assist in negotiating final indirect cost rates and direct costs. We questioned 64 percent of the indirect cost rate proposed by the company. This resulted in a potential savings of \$463,489. The contractor correctly excluded the labor related to an unallowable divestiture activity in its final incurred cost proposal, but did not exclude the directly associated indirect costs as required by the Federal Acquisition Regulation. We increased the labor base used to compute the indirect rate to ensure that all costs associated with an unallowable divestiture activity were properly excluded from the indirect cost pool.

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### **Clean Water State Revolving Fund (CWSRF)**

Title VI of the Clean Water Act established the CWSRF program to replace the wastewater treatment facilities construction grants program. One expectation of the CWSRF is to create permanent revolving funds in each state to make loans to local governments to construct needed wastewater treatment facilities. Assets in state-administered CWSRFs exceeded \$28 billion as of December 1998.

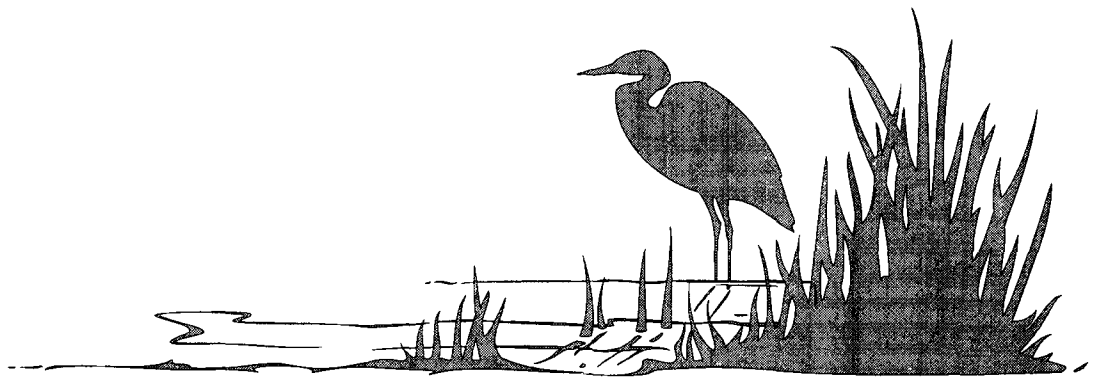
The OIG developed an audit strategy in consultation with EPA to help assure that EPA's need for reliable CWSRF financial statements is met. The strategy also includes objectives to help assure that states operate the CWSRFs with adequate internal controls and in compliance with capitalization grant requirements. In addition to monitoring state auditor and independent public accountant audits of CWSRFs, the OIG conducts audits in selected states. In fiscal 1999, the OIG issued audit reports on the CWSRF programs in Nebraska and Texas. Audits are in progress in Nevada, Oregon, and Utah. Texas received an unqualified opinion on its



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CWSRF financial statements. The Nebraska subsidiary accounting systems do not have adequate controls in place to ensure that all CWSRF activity is properly accounted for and to ensure that accurate financial information is maintained and reported in the financial statements. Therefore, we disclaimed an opinion because we were unable to obtain the level of assurance needed. We recommended that the CWSRF management maintain an accounting system to adequately account for its activity and place a higher priority on its financial reporting and accounting.

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## Fraud Awareness Briefings

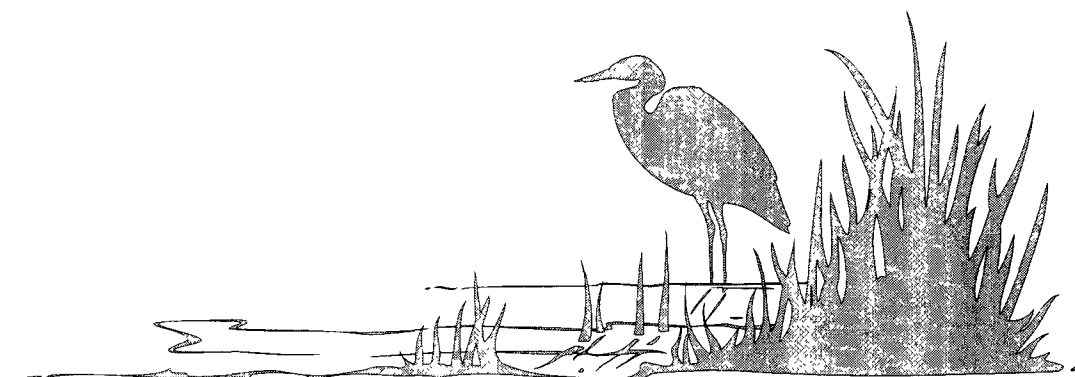
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The OIG is committed to building strong relationships with other investigative agencies, prosecutors, Agency employees and managers and to strengthening awareness by state and local law enforcement officials and environmental program officials of possible fraud, waste, and abuse within EPA programs. To achieve this goal, the OIG has supported an aggressive fraud awareness briefing program spear headed by the investigative field offices within EPA's regions. The briefings are an important part of the Office of Investigations' fraud detection and prevention efforts within EPA and, as such, have been formally integrated into the Office of Investigations' performance plans.

To effectively implement the fraud awareness briefing program, field offices have identified specific EPA programs and interested state and local law enforcement organizations within their jurisdictions for participation. Briefings are usually tailored to address the vulnerabilities within these areas or specific interests from a law enforcement perspective. Briefings have been conducted for staff working in EPA grant programs; in Superfund and contracting activities; and for re-certification classes for Project Officers, Work Assignment Managers, and On-Scene Coordinators. Most recently, we have conducted briefings for local United States Attorney's Offices on law enforcement issues regarding the filing of financial information by potentially responsible parties under CERCLA.

Based on the OIG's activity over the past six months, in this area, we believe that the fraud awareness briefings have contributed to the goal of fraud detection and prevention and have facilitated the development of stronger working relationships both within and outside EPA.

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## **Committee on Integrity and Management Improvement**

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The Committee on Integrity and Management Improvement (CIMI) was established in 1984 by EPA Order 1130.1. The purpose of CIMI is to coordinate the Agency's effort to minimize the opportunities for fraud, waste and mismanagement in EPA programs and to advise the Administrator on policies to improve the efficiency and effectiveness of EPA programs and activities. The Committee is composed of senior EPA program and regional officials and is chaired by the Inspector General.

### **Prospective Employment, Outside Employment and Post-Employment**

CIMI developed an informational leaflet to provide EPA personnel with a detailed synopsis of current restrictions on outside employment and post-employment and to heighten employee awareness of potential improprieties.

In view of reduction in the size of within the Federal work force, many employees are reevaluating their career goals and need guidance to avoid potential conflicts of interest. The rules pertaining to prohibited activities after leaving Federal service and those governing outside employment and teaching, speaking, and writing while a Federal employee were established to guard against actual or potential conflicts of interest which may bring into question the propriety of Federal actions. These rules are complex, and violators are subject to a wide range of penalties, including criminal sanctions. Federal employees who plan to seek employment in the private sector or engage in outside employment need to know about applicable rules.

### **Program Fraud Civil Remedies Act**

The Program Fraud Civil Remedies Act (PFCRA) was enacted to provide Federal agencies with an additional legal remedy to combat fraud by false claims and false statements. Before enactment of PFCRA, the only remedies available were civil action under the False Claims Act, and criminal prosecution under the Federal criminal code. Sometimes known as the "Mini-False Claims Act," PFCRA established an alternative administrative procedure that can be used against anyone who makes a claim to an agency that he/she knows, or has reason to know, is false, fictitious, or fraudulent. Any individual (or organization) found liable under PFCRA may be penalized up to \$5,500 per false claim or false statement, and may be assessed up to double the amount falsely claimed. CIMI developed an awareness bulletin to provide EPA employees with a brief synopsis of PFCRA and inform them how PFCRA can be used to bring administrative actions to recover damages and civil penalties for small dollar frauds. The document also emphasized the need for continual efforts to detect and report fraud.



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## Section 3-- Operating at the Highest Performance Level

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### Office of Inspector General Initiatives

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#### **Agents of Positive Change**

The OIG continued its reinvention initiative during this reporting period by focusing on becoming a high performance organization which contributes to environmental quality, public health and good government through problem prevention and cooperative solutions.

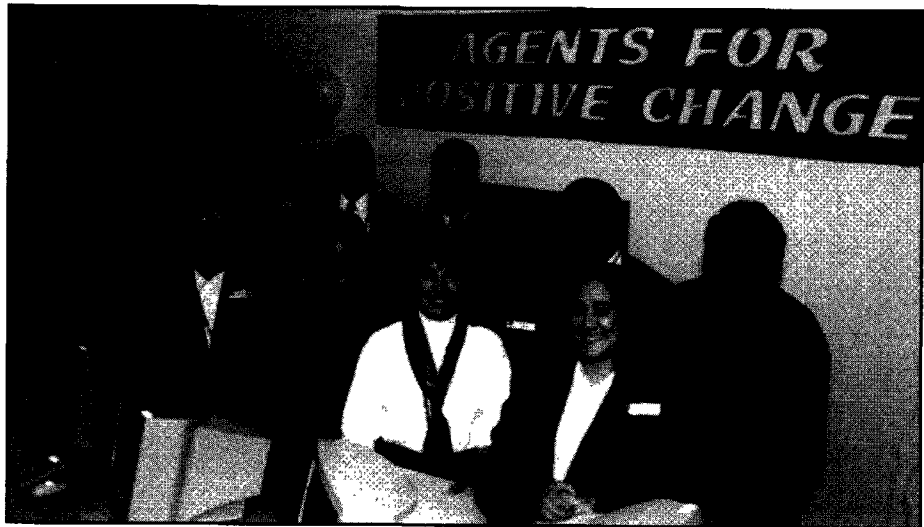
In January 1999, thirty OIG leaders and managers attended a Federal Executive Institute sponsored course on building high performance organizations. To provide a solid foundation for our high performance organization, all OIG employees will receive specialized training in the concepts of personal leadership and performance excellence by the end of the calendar year. Our performance excellence training will familiarize OIG employees with the Malcolm Baldrige National Quality Award criteria and provide a framework for assessing organizational performance, and ultimately facilitate systemic improvements within the OIG.

The OIG Steering Committee plays a key role in our reinvention initiatives. The Steering Committee developed statements of leadership philosophy, and organizational and operating systems values in support of our OIG vision statement. They then worked with other members of our leadership team to refine the statements and share them with our entire workforce. Work Groups under the auspices of the Steering Committee developed a new rewards program for the OIG and made significant progress on projects in the areas of strategic planning, organizational communications and process standardization.

#### **Inspector General Operations And Reports**

On February 22, 1999, OIG launched the debut of its new management information system, the Inspector General Operations and Reports system (IGOR). IGOR was designed to automate and consolidate the management of OIG activities. It replaces functions previously accomplished by three individual OIG systems, integrates the information, and provides the flexibility to satisfy multiple user requirements. IGOR has the capability to perform assignment tracking, audit tracking and investigative tracking. It will produce the type of statistical information used in the Semiannual Report to Congress as well as recurrent internal OIG management reports. It will also calculate and maintain cost data associated with OIG activities.





The Inspector General and the IGOR Development Team

The completion of IGOR represents a milestone that has taken almost three years to achieve. IGOR is a major tool in assisting the OIG to accomplish its' goal of improved performance.

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### **Office of Investigations' Customer Survey**

This past fiscal year, the Office of Investigations conducted its third customer survey. The survey consisted of a two-page questionnaire which we sent to officials in the Agency, the Department of Justice, and state and local governments, who recently worked with our special agents or received our investigative products. The questionnaire inquired about various subjects including the professionalism and timeliness of the investigation and any deficiencies; whether the special agent kept the prosecutor informed about the progress of the investigation; whether the agent provided timely and effective prosecutive support; whether the investigative report was clear, focused and complete; and whether there were areas for improvement. Prosecutors were asked to rate their overall experience in working with the special agent.

The Office of Investigations distributed questionnaires to 114 customers, most of whom were Assistant U.S. Attorneys (AUSAs) and Headquarters and regional Agency officials, and received 57 responses (50%). The results were favorable. For example, 96.5% of the respondents indicated that our investigations were professional and timely; all of the thirty AUSAs who responded stated that they were kept apprised of progress in the investigation and that our special agents provided timely and effective support; and the average overall rating that our agents received from AUSAs was 4.73 (on a 5.0 scale). The results of the survey, including the comments from every respondent, were provided to all EPA OIG special agents for their edification and instruction in how to enhance customer satisfaction.



## First OIG Diversity Report Indicates Progress

In response to House Report 105-610, dated July 8, 1998, which accompanied the fiscal 1999 appropriations for the Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies, we provided a semiannual report on workforce diversity covering the first half of this fiscal year. In addition to submitting the report on workforce diversity twice a year to the House and Senate Committees on Appropriations, the House directed each Inspector General covered by that appropriation to convene a working group to study the issues of workforce diversity and to identify the problems in improving workforce diversity.

The OIG is committed to recruiting and maintaining a highly competent and diverse workforce. Since 1997, we have actively taken the following steps, and have communicated them internally through the OIG Intranet, to address the concerns and perceptions of our employees and to increase workforce diversity in the OIG:

- We created the **Special Emphasis Program Manager (SEPM) Team**. The SEPM Team is a working group which helps OIG management identify, analyze, and address the employment-related concerns and perceptions of minorities, women, and persons with disabilities and helps senior management develop ideas to increase workforce diversity in the OIG. During April 1999, the Agency awarded the SEPM Team the Silver Medal for exceptional team efforts in developing a model management approach that other EPA offices can emulate to effectively assist the Agency in achieving its Affirmative Employment Program and Diversity Action Plan goals and objectives.
- We established a **Diversity Action Plan (DAP)**. The DAP identifies the employment-related concerns and perceptions of our minority employees and provides approaches for increasing workforce diversity in the OIG.
- We annually prepared and submitted the update of the **Affirmative Employment Program (AEP) Plan** to EPA's Office of Civil Rights. The AEP Plan describes our workforce diversity goals for selected target groups and describes our accomplishments in meeting the goals. The OIG keeps track of its progress by preparing in-house quarterly updates of the AEP.
- **Fiscal 1999 Goals:** Our fiscal 1999 AEP goals focused on increasing the number of under-represented Hispanics, Asian-Pacific Islanders, and women. We worked to ensure that we have an active program for reaching candidates from the under-represented groups. A key component of our efforts is the continued involvement of the SEPM Team and OIG hiring officials.



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## Government Performance and Results Act Review Plan

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***The Government Performance and Results Act (GPRA) promotes a new focus on results, accountability, service quality and customer satisfaction in Federal agencies. GPRA links planning and budgeting with results. Strategic and annual performance plans set goals and specify measurements which are used to evaluate results. Members of Congress have asked OIGs to develop a Results Act review plan to examine agency performance plans, and verify selected data and accounting systems that support an agency's performance reports.***

### **OIG Continues Assisting and Assessing EPA Implementation of Results Act**

Consistent with the IG Act, the OIG has been actively promoting improvement of EPA operations by overseeing effective implementation of the Results Act's provisions and assisting Agency managers to institutionalize the principles of GPRA into day-to-day operations. The OIG first reported on EPA's implementation of GPRA in 1996, but has been reporting on EPA **data quality issues** for several years.

Currently, the OIG is assisting EPA evaluate the accomplishment of its goals, and ensure the adequacy of accountability systems and development of meaningful performance measures. OIG audits are evaluating the accuracy, adequacy and reliability of data needed to measure performance and environmental results from Agency operations, its grantees and contractors in managing the nation's **water quality** and cleaning up the nation's **hazardous waste sites**. The OIG is also reviewing EPA's **cost accounting procedures, processes and systems** to accumulate the costs of carrying out each of its goals.

The OIG is developing and planning the following new tools and approaches for integrating reviews of, and assistance for Agency GPRA implementation into its products and services:

- *GPRA Review Guide with procedures for assessing GPRA implementation.*
- *Audit planning process linking audit products and services to Agency strategic and annual performance goals, measures, data and management challenges.*
- *Survey of agency data systems and sources for selected goals and measures.*
- *Partnerships with state auditors/OIGs for review of selected performance data.*
- *Creation of a program evaluation unit to assist Agency management assess results.*



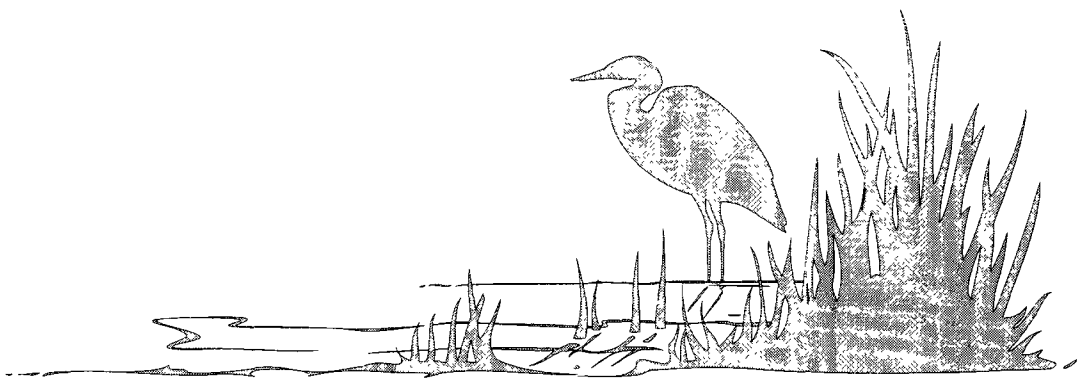
- 
- *Development of Agency data quality standards.*

The OIG is planning reviews of Agency GPRA implementation as part of its performance audit process by assessing data quality and systems for selected performance measures and goals, focusing on areas of high risk that support the attainment of the following Agency Strategic Goals:

- *Better waste management, restoration of contaminated waste sites and emergency response.*
- *Clean and safe water.*
- *Sound science, improved understanding of environmental risk and greater innovation to address environmental problems.*
- *Credible deterrent to pollution and greater compliance with the law.*
- *Expansion of Americans' right to know about their environment.*
- *Effective Agency management.*

The OIG will also review selected performance measures identified in the Overview of EPA's Financial Statements, beginning with the one prepared for Fiscal 1999.

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## Section 4 –Audit Report Resolution

### Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending March 31, 1999 (Dollar Values in Thousands)

Report Category	No. of Rpts	Report Issuance		Report Resolution Costs Sustained	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by October 1, 1998	130	\$112,447	0		
B. Which were issued during the reporting period	208	68,083	\$1,658		
C. Which were issued during the reporting period that required no resolution	133	0	0		
Subtotals (A + B - C)	205	180,530	1,658		
D. For which a management decision was made during the reporting period	86	26,659	0	16,977	0
E. For which no management decision was made by March 31, 1998	119	153,871	1,658		
Reports for which no management decision was made within six months of issuance	55	86,011	0		

(Any difference in number of reports and amounts of questioned costs or recommended efficiencies between this report and our previous semiannual report results from corrections made to data in our audit tracking system.)



## Status of Management Decisions on IG Reports

*This section presents statistical information as required by the Inspector General Act Amendments of 1988 on the status of EPA management decisions on reports issued by the OIG involving monetary recommendations.*

*As presented, information contained in Tables 1 and 2 cannot be used to assess results of reviews performed or controlled by this office. Many of the reports were prepared by other Federal auditors or independent public accountants. EPA OIG staff do not manage or control such assignments. Auditees frequently provide additional documentation to support the allowability of such costs subsequent to report issuance. We expect that a high proportion of unsupported costs may not be sustained.*

**Table 1 -- Inspector General Issued Reports With Questioned Costs for Semiannual Period Ending March 31, 1999 (Dollar Value in Thousands)**

Report Category	Number of Reports	Questioned Costs*	Unsupported Costs
<b>A. For which no management decision was made by October 1, 1998 **</b>	<b>64</b>	<b>\$112,447</b>	<b>\$30,545</b>
<b>B. New reports issued during period</b>	<b>32</b>	<b>68,083</b>	<b>44,586</b>
<b>Subtotals (A + B)</b>	<b>96</b>	<b>180,530</b>	<b>75,131</b>
<b>C. For which a management decision was made during the reporting period</b>	<b>34</b>	<b>26,659</b>	<b>10,682</b>
(i) Dollar value of disallowed costs	22	16,977	5,134
(ii) Dollar value of costs not disallowed	29***	9,975	5,509
<b>D. For which no management decision was made by the end of the reporting period</b>	<b>62</b>	<b>153,871</b>	<b>64,449</b>
<b>Reports for which no management decision was made within six months of issuance</b>	<b>34</b>	<b>86,011</b>	<b>19,864</b>

\* Questioned costs include the unsupported costs.

\*\* Any difference in number of reports and amounts of questioned costs between this report and previous semiannual report results from corrections made to data in our audit tracking system.

\*\*\* Twelve audit reports totaling \$858 were not agreed to by management.



**Table 2 -- Inspector General Issued Reports With Recommendations That Funds Be Put To Better Use for Semiannual Period Ending March 31, 1999 (Dollar Values in Thousands)**

Report Category	Number of Reports	Dollar Value
A. For which no management decision was made by October 1, 1998*	0	0
B. Which were issued during the reporting period	1	\$1,658
Subtotals (A + B)	1	1,658
C. For which a management decision was made during the reporting period	0	0
(i) Dollar value of recommendations from reports that were agreed to by management	0	0
(ii) Dollar value of recommendations from reports that were not agreed to by management	0	0
(iii) Dollar value of non-awards or unsuccessful bidders	0	0
D. For which no management decision was made by March 31, 1999	1	1,658
Reports for which no management decision was made within six months of issuance	0	0

\* Any difference in number of reports and amounts of recommended efficiencies between this report and our previous semiannual report results from corrections made to data in our audit tracking system.

<b>Audits With No Final Action As Of 3/31/99-Which are over 365 Days Past OIG Report Issuance Date</b>				
Audits	Non-Superfund	Superfund	Total	Percentage
Programs	40	6	46	20.9
Allegations	4	-	4	1.8
Assistance Agreements	10	13	23	10.5
Construction Grants	109	-	109	49.5
Contract Audits	9	29	38	17.3
<b>TOTAL</b>	<b>172</b>	<b>48</b>	<b>220</b>	<b>100</b>



# Summary of Investigative Results

## Summary Of Investigative Activities

Pending Investigations as of September 30, 1998	199
New Investigations Opened This Period	41
Investigations Closed This Period	36
Pending Investigations as of March 31, 1999	204

## Prosecutive and Administrative Actions

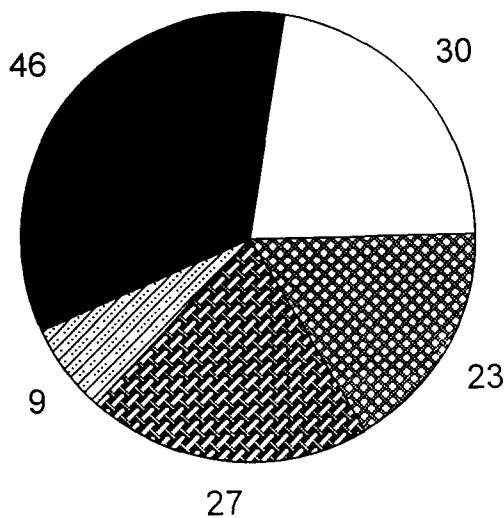
In this period, investigative efforts resulted in four convictions and five indictments.\* Fines and recoveries, including those associated with civil actions, amounted to \$575,099. Nineteen administrative actions were taken as a result of investigations.

Reprimands	3
Restitutions	2
Suspensions & Debarments	6
Other	8
<b>TOTAL</b>	<b>19</b>

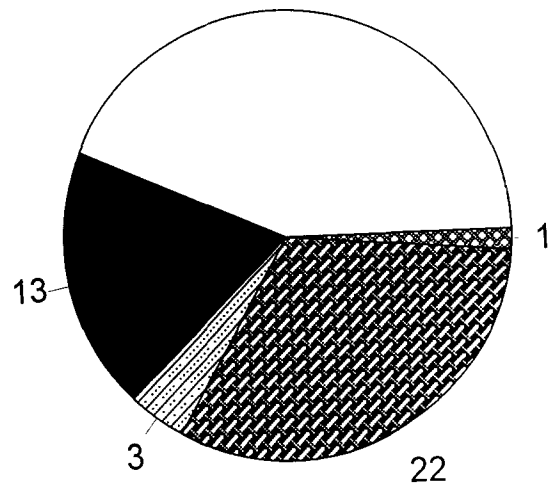
\* Does not include indictments obtained in cases in which we provided investigative assistance.

## Profiles of Pending Investigations by Type

General EPA Programs  
Total Cases = 135



Superfund  
Total Cases = 69



☐ Contract      ☒ Assistance Agreement      ☒ Employee Integrity  
☒ Program Integrity      ☒ Other



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