

# EPA Office of Inspector General Report to Congress

**Fiscal 1985**

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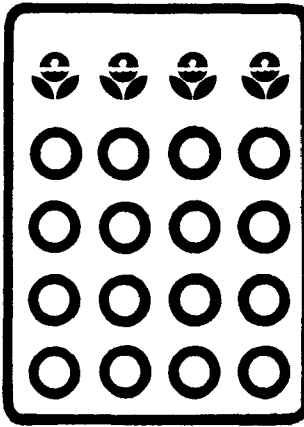
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U.S. Environmental Protection Agency  
Region V, Library  
230 South Dearborn Street  
Chicago, Illinois 60604

**Adding Up  
the  
Savings  
for EPA**



Office of  
Ernest B.  
Assistant Inspector General  
Kenneth  
Deputy

Operations  
Steven  
Director

Technical  
James  
Director

Headquarters  
Kenneth  
Internal Audit

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Office of Inspector General

<b>Audit Operations</b>	<b>Amount Total Fiscal 1985</b>
Questioned Costs* - Total (expenditures which are not allowed)	\$162.5 Million
Set-Aside Costs* - Total (expenditures which are insufficiently supported to determine their allowability)	\$343.3 Million
Sustained Costs for Recovery and Savings - Federal Share (costs which EPA management agrees are eligible and are committed to recover or offset against future payments)	\$ 62.9 Million
Cost Efficiencies or Deobligations (funds made available by management's commitments to implement recommendations in OIG internal and management audits)	\$ 2.8 Million
Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future grants)	\$ 27.1 Million
EPA Audits Performed by the OIG	207
EPA Audits Performed by Another Federal Agency, State Auditors, or Independent Public Accountants and Attachment P Audits	1,389
Audit Reports Resolved (agreement by Agency officials to take satisfactory corrective action)	1,543
<b>Investigative Operations</b>	
Fines and Recoveries	\$956,708
Investigations Opened	445
Investigations Closed	447
Indictments of Persons or Firms	22
Convictions of Persons or Firms	10
Administrative Actions Taken Against EPA Employees	43
<b>Fraud Detection and Prevention Operations</b>	
Debarments, Suspensions, Voluntary Exclusions, and Settlement Agreements (actions to deny persons or firms from participating in EPA programs or operations because of misconduct or poor performance)	66
Hotline Complaints Received	83
Hotline Complaints Processed and Closed	119
Proposed Legislative and Regulatory Items Reviewed	291
Personnel Security Investigations Adjudicated	618

\*Questioned and set-aside costs are subject to reduction pending further  
review in the audit resolution process

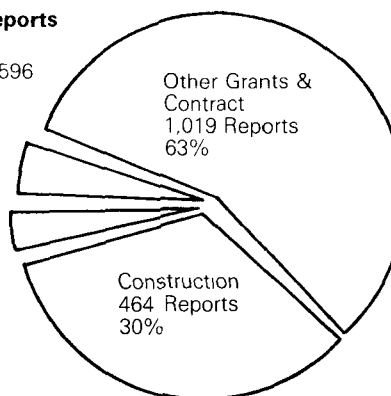
# Audit Activities

## Distribution of Audit Reports Issued by Type

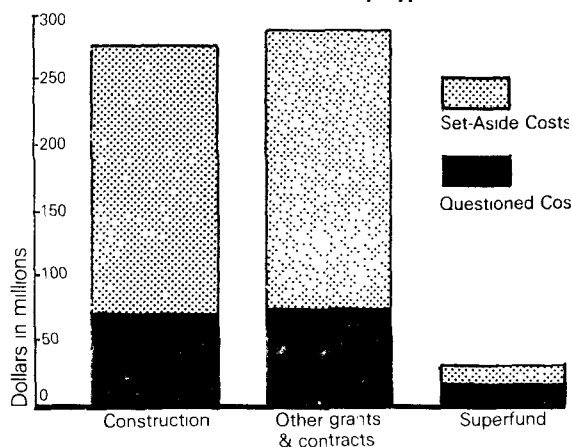
Total Audits Issued = 1,596

Superfund  
66 Reports  
4%

Internal &  
Management  
47 Reports  
3%



## Questioned & Set-Aside Costs by Type of Audit



## Examples of Significant Audits

The following represents examples of some of our most significant types of findings. They should not be considered representative of the overall adequacy of EPA management.

### Sampling Methods May Not Have Been Adequate for Finding Asbestos in Schools

Regional EPA asbestos officials did not emphasize the importance of following recommended sampling methods for identifying asbestos in schools of Regions 1, 5, and 10. By not following the EPA recommended methods for sampling and quality assurance, there is limited assurance that asbestos has been properly identified and described in schools in these Regions.

*We recommended that the Regional Administrators notify all schools within their jurisdiction of the importance of using random sampling techniques and ensure that advance notice of press releases are given to schools and that these releases refer to EPA's willingness to provide technical assistance.*

### **Improvements Needed in Clean Water Act Grants Management**

Ten State agencies received \$88 million of Clean Water Act grant funds without EPA adequately ensuring that grant financial requirements were met. EPA grant administration procedures need to be strengthened to ensure that sections 106 and 205(g) grants are awarded only to States that maintain the required level-of-effort. Procedures also need to be improved to ensure that work commitments required by the section 106 grants are attained.

Similar deficiencies at three regional offices were reported in fiscal 1984.

*We recommended that the Assistant Administrator for Water and the Assistant Administrator for Administration and Resources Management develop national policies and procedures to establish the necessary controls to ensure that sections 106 and 205(g) level-of-effort requirements are met, monitor State agency progress on its grant award objectives; and impose regulatory sanctions when State agencies do not work to correct significant shortfalls in their performance.*

*We also recommended that Headquarters conduct more comprehensive annual evaluations of the regions.*

*On January 29, 1985, the Assistant Administrator for Water issued a national policy requiring regional offices to correct level-of-effort deficiencies by working with States that did not earn their grant award to increase their expenditures. Other actions were also taken to improve the monitoring of State performance.*

### **Construction Delays, Poor Performance, and Unauthorized Change Orders Result in EPA's \$9.8 Million Disallowance of Grantee's Claim**

The Middlesex County Utilities Authority in Sayreville, New Jersey, received three construction grants totalling \$80.3 million to improve and upgrade its sewage facilities. We questioned \$3.8 million due to construction delays, unauthorized change orders, the submission of insufficient cost documentation, and expense claims that were not within the scope of the grant.

Cost overruns, construction delays, uncertainty of performance, and change orders also accounted for about \$13 million in set-aside costs.

*As a result of our recommendation that questionable costs be disallowed and that the eligibility of set-aside costs be evaluated, Region 2 sustained \$9,784,252 of the amount we questioned or set aside.*

### **Inadequate Documentation Creates Disallowances for Charleston, West Virginia, Grantee**

Despite receiving a \$16.8 million sewage treatment grant, the Elk Pinch Public Service District's recordkeeping and accounting practices did not comply with EPA and Federal regulations. Insufficient support, duplicate entries, incorrect participation formulas, and the claiming of unrelated expenses led to \$926,870 in questioned costs. We also set aside \$1.7 million, primarily associated with architectural and engineering fees, until further documentation could be provided.

*The regional officials sustained \$1,275,221 of questioned and set-aside costs as a result of this audit.*

### **EPA Needs to Improve Timeliness of Hazardous Waste Site Cleanup**

Operational constraints such as lack of timely review of contractor workplans by EPA are significantly delaying EPA contractors hired to conduct remedial planning/field investigation team activities in preparing to clean up the nation's worst hazardous waste sites.

*We recommended that the Acting Assistant Administrator for Solid Waste and Emergency Response develop, implement, and enforce additional criteria for workplan review and establish mobile labs for field screening analysis.*

### **\$2.4 Million Disallowed on Merced, California, Sewage Grant**

The city's finance department customarily processed construction and engineering claims without first determining if they were eligible project costs. As a result, the City of Merced claimed \$1,586,059 of unallowable costs.

We also set aside \$831,491 of interest that the grantee earned on a duplicate claim for ineligible construction costs and \$136,650 in claims relating to the plant's landscaping to determine its eligibility.

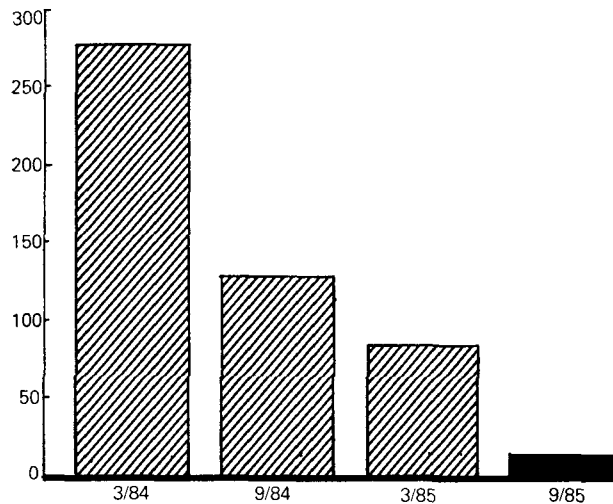
*We recommended that the Regional Administrator: (1) disallow and recover Federal share reimbursements made to the grantee, (2) evaluate the set-aside costs, and (3) ensure that the Public Works Department review claims for grant reimbursement before submission to the State Board and EPA.*

*The Regional Administrator sustained \$2,463,793 of the questioned and set-aside costs.*

## Audit Resolution

EPA management continues to focus its attention on reducing the number of unresolved audits. The number of overdue items decreased from 125 a year ago, to 80 six months ago and to 20 at the close of this fiscal year. During this year, EPA management resolved 1,534 audits and sustained \$65.7 million of questioned costs including \$62.9 million for recovery and \$2.8 million of cost reductions. Also, EPA recovered \$27.1 million from resolution of audits from current and prior years including \$10 million in cash collections and \$17.1 million of offsets against billings.

**Unresolved Audits Over Six Months Old  
as of the End of the Four Prior Periods**



Although the Agency has made substantial progress in improving its audit resolution effort, more needs to be done to improve the quality of the audit resolution effort while maintaining or improving timeliness. Agency action official decisions frequently are reversed or modified after the audit is closed indicating a need to improve the quality of the audit resolution process.

The Agency's administrative review process for handling assistance agreement disputes is overburdened with cases which are not resolved in a timely manner. Disputed receivables remain uncollected and do not accrue interest during the lengthy resolution process.

We determined that the disputed receivable account balance grew from \$7 million in September 1983, when the Agency stopped accruing interest on disputed receivables, to the present \$27 million. We have worked with the Agency in recommending improvements in the audit resolution process which may save the Agency as much as \$1 million annually in the reduced time value of money eventually collected.

During this fiscal year our investigative efforts resulted in nearly \$1 million of civil recoveries from persons or firms who defrauded the Agency. Most of these recoveries involved EPA funds illegally obtained by rigging bids on competitively awarded contracts. Our continuing investigation of bid rigging has also resulted in 19 convictions, 18 years imprisonment, and over \$1 million in fines to date.

## **Selected Prosecutive and Administrative Actions**

### **Conspiracy to Rig Election and Bids on Sewer Project**

Brian Ingber, Supervisor of the Town of Fallsburg, New York, three others, and Service Scaffold, Inc., Ingber's family business were charged with conspiring to rig bids so that Service Scaffold, Inc., would have an advantage in winning an equipment supply contract on a \$24 million sewer project. The defendants allegedly manipulated the bidding process by conveying false information to competing bidders and concealing Brian Ingber's conflict of interest between his business and official position which included administering the sewer project.

The five defendants were also charged with rigging Ingber's 1983 election as Supervisor by forging the signatures of registered voters on ballots and fraudulently obtaining signed absentee ballots.

The defendants were indicted on 19 counts of racketeering, mail fraud, and false statements on August 23, 1985, and Service Scaffold, Inc., was ordered to forfeit \$570,000 it received on the sewer contract funded by EPA and New York State.

### **False Claims and Kickback Conspiracy in Superfund Cleanup**

In our first Superfund related prosecution, the Environmental Management Corporation (EMC), Utica, Michigan, and three of its owners/officers pled guilty to conspiring to defraud the Government. EMC allegedly submitted false manifests and site receipts during the 1982 Superfund cleanup of the Liquid Disposal, Inc., site. During our investigation haulers admitted driving only half-full trucks that EMC manifested as full and a waste disposal firm admitted paying EMC a \$25,000 kickback for receiving its business. Each defendant was fined \$5,000 and sentenced to 4 months in prison. EMC was fined \$10,000 and placed on five years probation.



### **Contractor Convicted and Fined for Bid Rigging**

The Modern Electric Company (MEC) of Statesville, North Carolina, and company officer E. Eugene Carson along with co-conspirators were convicted on January 9, 1985, of submitting collusive, non-competitive bids to Boone, North Carolina, so that one of the conspirators would be awarded a \$247,639 contract for electrical work on an EPA funded project. On February 25, 1985, MEC was fined \$10,000 and Carson was fined \$2,500 and sentenced to 120 days in a work release program to perform community service.

### **Prosecution for Bid Rigging**

The G.E. Moore Co., Inc., of Greenwood, South Carolina, pleaded guilty on July 25, 1985 to rigging bids in violation of Section 1 of the Sherman Antitrust Act (15 U.S.C. 1). In the April 4, 1985 indictment Moore Co. along with co-conspirators were charged with submitting collusive bids so that one of the conspirators would receive an award of \$1,689,820 to work on the EPA funded Winnsboro Sewage System Improvement Project. Moore Co. was fined \$50,000. Actions by Reporting Period, Fiscal 1985

### **EPA Employees Suspended for Conduct Violation**

Two EPA employees, a branch chief, and an inspector were suspended without pay for 30 days for violating the EPA standards of conduct. During the investigation, both employees admitted that the inspector obtained bags of fertilizer from sites that he officially inspected and provided them to the branch chief, who had requested them for his personal use. They also admitted using Government vehicles to transport the fertilizer to the branch chief's residence. In addition, the inspector admitted receiving meals, home and garden products, and "bike-a-thon" donations from companies he inspected.

### **Falsification of Employment to Receive Unemployment Benefits**

In August 1984, a match of unemployment benefit recipients of the California State Employment Development Department with EPA employment roles identified several EPA employees who may have simultaneously received unemployment benefits while employed by EPA. A subsequent investigation determined that May Kei Wong, a former part-time clerk for EPA, received \$1,545 in unemployment benefits by falsifying her employment status with EPA. On September 20, 1985, May Kei Wong admitted falsifying documents to receive the unemployment benefits agreed to make full restitution and was formally charged on September 27, 1985

### **Suspension and Debarment Activities**

EPA's policy is to do business only with contractors, grantees, and persons who are responsible, honest, and who comply with applicable rules and regulations. EPA enforces this policy by suspending or debarring any organization or person for acting improperly, having a history of substandard work, or willfully failing to perform on EPA or other Federally funded activities. Suspensions and debarments deny participation in Agency programs and activities to those who represent a risk of abuse to the Government. In fiscal 1985, 66 debarment or suspension actions were taken. Examples follow:

- Joseph D. Krueger and Insulation Specialty Company, Inc., of Cuyahoga Heights, Ohio, were debarred for three years on October 4, 1984. An OIG investigation determined that during improvements to a wastewater treatment plant, Krueger and his firm had substituted aluminum pipe jacketing for the more expensive stainless steel jacketing specified in the contract, and that they had billed the Northeast Ohio Regional Sewer District at the higher price. Upon discovery of the substitution, the materials were replaced at contractor expense. The project was funded by EPA.
- The Komatz Construction Company, Inc., of St. Peter, Minnesota, was debarred for three years on September 26, 1985, along with Tom P. Komatz, the president of the firm, and Leonard A. Hansen, the vice president. The Komatz Corporation, along with Messrs. Komatz and Hansen, had been convicted of (1) combining and conspiring with others to allocate or divide customers or markets for the sale of public road paving services and (2) combining and conspiring with other persons in the letting of a public contract whereby the price quotation was fixed or controlled.
- W.E. Boyette and his company, Watson Electric Company, Wilson, North Carolina, were each debarred for two years on April 15, 1985. On March 12, 1985, Boyette and Watson Electric pled guilty to charges that they and co-conspirators submitted collusive non-competitive bids on an electrical contract at a wastewater treatment facility in Orange County, South Carolina. The collusive bids were submitted so that an artificially high contract award of \$626,300 would be made for an EPA-funded project. Boyette was sentenced to 7½ months imprisonment. Watson Electric Company was fined \$248,000.

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### **Personnel Security Program Works to Ensure the Integrity of Employees and Contractors**

The personnel security program is one of the Agency's first line defenses against fraud, using background investigations to review the integrity of EPA employees and contractors. During fiscal 1985, 618 investigations were reviewed resulting in 2 employees being suspended without pay and 10 employees receiving official reprimands for falsifying their applications for Federal employment or failing to disclose previous criminal convictions.

### **Committee on Integrity and Management Improvement Yields First Products**

The Committee which coordinates EPA's fraud prevention activities, completed one project and is continuing action on several others. In fiscal 1985, the Quality Assurance/Quality Control work group completed an evaluation addressing ways the Agency can minimize the use of fraudulent or unreliable research results and strengthen technical data that impacts the regulatory process. The subcommittee on employee awareness issued its first two Awareness Bulletins to inform EPA employees of ways to improve the economy and efficiency and prevent or deter fraud, waste, and mismanagement in Agency programs. The Awareness Bulletin entitled Antitrust Activities has been distributed to all State agencies administering EPA programs and several other Federal agencies concerned with the detection and prevention of bid rigging.

### **Employee Awareness**

A major goal of the Office of Inspector General is to make EPA employees, grantees, firms participating in EPA operations, and public aware of their responsibility to prevent, detect, and report instances of fraud, waste, and mismanagement. To provide this information and encourage participation in fulfilling the objectives of the OIG we have used a variety of mediums. Several examples are discussed below:

- EPA Manual 6500 - Functions and Activities of the Office of Inspector General. This manual discusses the statutory duties and independent authority of the Office of Inspector General and the OIG's relationship to EPA and other Federal agencies.
- What To Do Before and After the Auditors Arrive. This pamphlet was produced for grantees of EPA assisted projects to explain how auditors conduct their audits, what information and resources auditors need, and what role the grantee plays in the development of the audit report.
- What an Internal Audit Means to You. As a companion to the audit pamphlet for EPA grantees, this pamphlet designed for EPA employees and managers discusses how the OIG determines what to audit, the major steps or procedures of the internal audit process, and how audit findings are resolved.

## Hotline Activities

The OIG Hotline Center received 83 new complaints and closed 119 cases during fiscal 1985. Of those cases closed 21 resulted in environmental, prosecutive, or administrative action. Several examples follow.

- The OIG auditors conducted a limited review of a contractor's travel and living expenses and labor charges associated with an EPA contract. The OIG determined that the contractor had overcharged EPA for temporary living expenses and for labor charges. OIG recommended that EPA seek a \$35,359 reimbursement from the contractor.
- As a result of an investigation by EPA and the New Hampshire Water Supply and Pollution Control Division, a landfill which was leaking toxic waste and contaminating water was scored and ranked for Superfund cleanup
- A complainant alleged that an Illinois company was improperly storing cyanide wastes and that storage drums were not being properly rinsed after disposing of the wastes. The Illinois Environmental Protection Agency (IEPA) found several violations in the handling and dumping of hazardous waste.

***If you are aware of any fraud, waste, or mismanagement, please contact the EPA Inspector General Hotline or the appropriate Divisional Inspector General.***

- Information is confidential
- Caller may be anonymous.
- Call can be made from anywhere toll free 800-424-4000 202 (or 8 if FTS) 382-4977

**Remember, Act Like Its Your Money - It Is!**