

**EPA Office of
Inspector General
Report to Congress**

HIGHLIGHTS

Fiscal 1989

U.S. Environmental Protection Agency
Region 5, Chicago (5-L-10)
200 S. Dearborn Street, Room 1670
Chicago, Illinois 60606



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The Inspector General Act of 1978 (P.L. 95-452), as amended, created the Office of Inspector General to consolidate existing investigative and audit resources in independent organizations headed by Inspectors General.

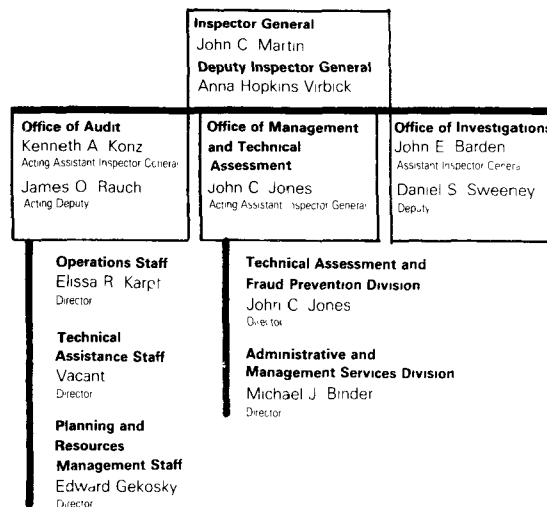
The OIG's role is to review EPA's financial transactions, program, and administrative activities; investigate allegations or evidence of possible criminal and civil violations; and promote economic, efficient, and effective operations within the Agency.

The EPA Inspector General reports directly to the Administrator and the Congress and has the authority to:

- Initiate and carry out independent and objective audits and investigations,
- Issue subpoenas for evidence and information,
- Obtain access to any materials in the Agency,
- Report serious or flagrant problems to Congress,
- Select and appoint OIG employees,
- Fill Senior Executive Service positions,
- Administer oaths, and
- Enter into contracts.

The Inspector General is appointed by, and can be removed only by, the President. This independence protects the OIG from interference and allows it to function as the Agency's fiscal and operational watchdog.

Office of Inspector General - Headquarters



Divisional Inspectors General

Headquarters	Region 3	Region 5
Kenneth Hockman Internal Audit IFTS or 2021-382 4930	Paul R. Gandolfo Audit IFTS or 2 51097 049	Anthony C. Carrollo Audit IFTS or 2 51097 049
Francis C. Kiley Investigations IFTS or 2021-382 4934	Martin Squitieri Investigation IFTS or 2151 997 912	Alex Falcon Investigation IFTS or 2 51097 049
Regions 1 and 2	Regions 4, 6, & 7	Regions 8, 9, & 10
Paul McKechnie Audit IFTS 835 3160 or re 71-535 3160	Mary Boyer Audit IFTS 211 362 111 404 347 362	Truman R. Beeler Audit IFTS 211 362 111 404 347 362
Robert M. Byrnes Investigations IFTS or 211 362 111	James F. Johnson Investigations IFTS or 211 362 111	H. Brooks Griffin Investigations IFTS or 211 362 111

Environmental Protection Agency
Office of Inspector General

Fiscal 1989

Audit Operations

OIG Managed Audits

• Questioned Costs*	--Total	\$165.2 million
	--Federal Share	\$124.2 million
• Recommended Efficiencies (Funds be Put to Better Use)	--Total	\$ 19.7 million
	--Federal Share	\$ 10.7 million
• Costs Disallowed to be Recovered (costs which EPA management agrees are unallowable and is committed to recover or offset against future payments)	--Federal Share	\$ 40.5 million
• Costs Disallowed as Cost Efficiencies Recommended Efficiencies (funds made available by EPA management's commitment to implement recommendations in OIG audits)	--Federal Share	\$ 36.8 million

Other Audits

• Questioned Costs*	--Total	\$ 6.5 million
	--Federal Share	\$ 5.7 million
• Recommended Efficiencies (Funds be Put to Better Use)	--Total	\$418.8 million
	--Federal Share	\$418.8 million
• Costs Disallowed to be Recovered (costs which EPA management agrees are unallowable and is committed to recover or offset against future payments)	--Federal Share	\$ 4.5 million
• Costs Disallowed as Cost Efficiencies Recommended Efficiencies (funds made available by EPA management's commitment to implement recommendations in OIG audits)	--Federal Share	\$ 24.6 million
• Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments)**		\$ 30.0 million
• EPA Audits Performed/Issued by the OIG		1,920
• Audit Reports Resolved (agreement by Agency officials to take satisfactory corrective action)		676

Investigative Operations

• Fines and Recoveries (including civil)	\$5,433,251
• Indictments/Convictions	74
• Administrative Actions Taken Against EPA Employees	34

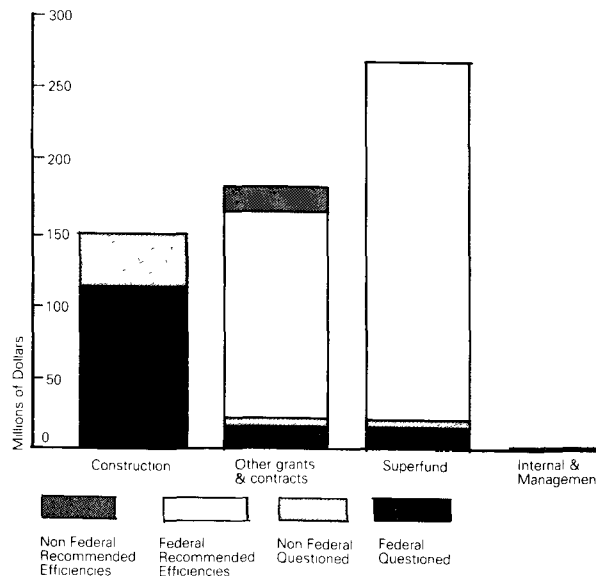
Fraud Detection and Prevention Operations

• 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)	72
• Hotline Complaints Received	82
• Proposed Legislative and Regulatory Items Reviewed	117
• Personnel Security Investigations Adjudicated	600

* Questioned Costs: Ineligible, Unsupported and Unnecessary/
Unreasonable; and Recommended Efficiencies (Funds be Put to
Better Use) are subject to change pending further review in
the audit resolution process.

** Information was provided by the EPA Financial Management
Division and is unaudited

Questioned Costs and Recommended Efficiencies by Type of Audit - FY 89



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.

Penalties Against Polluters Greatly Reduced

Reductions to calculated penalties against polluters, as much as 90 percent, far exceeded Agency guidelines, and EPA consistently failed to maintain essential records supporting these enforcement decisions. As a result, there was little assurance that penalties assessed by EPA were equitable or sufficient to deter violations of environmental laws and regulations. Also, EPA regional offices did not always calculate and consider the economic benefit (the potential financial gain the violator received from delayed or avoided costs of compliance) and gravity (the reflection of the actual or potential harm to the environment and the size of the violator) in assessing penalties.

Hawaii Grant Programs Did Not Achieve Environmental Goals

Region 9 did not effectively monitor Hawaii's administration of over \$60 million of program and construction grants awarded during fiscal years 1986 through 1988. Specifically, we found neither the State nor EPA demonstrated a serious commitment to establishing an effective enforcement program and pursuing penalties

against facilities with long histories of discharging water and air pollutants in violation of environmental regulations. Many facilities were deteriorated, and some were not capable of functioning at their designed operating levels. Also, expiring National Pollutant Discharge Elimination System permits were not reviewed on a timely basis, and two wastewater treatment facilities were allowed to discharge without a valid NPDES permit or extension.

Success of a New Imported Vehicle Inspection Program Questioned

Foreign vehicles manufactured for sale overseas generally do not conform to U.S. safety and emission standards. However, these "gray market" vehicles may be imported providing they are modified to meet U.S. standards. A new EPA gray market vehicle program reduces the Agency's oversight, reduces or eliminates some major controls, and allows importers to operate without prior on-site inspection of their facilities. For example, the new program makes independent commercial importers (ICIs) responsible for importing, modifying, and testing the vehicles. Each ICI would get permission to operate through a certificate of conformity issued by EPA for each make, model year, and engine type of vehicle being imported based solely on the quality of changes made to a prototype vehicle. Also, the new program eliminated the Customs bond previously required on each imported vehicle, reduced vehicle inspection hold periods, and reduced test data submission requirements. The revised program does not have a formal penalty policy to encourage program compliance and ensure consistent, fair enforcement.

Schools With More Serious Asbestos Hazards Could Have Received EPA Funding

EPA needs to improve its management of the Asbestos School Hazard Abatement Act loan and grant program so that local educational agencies with the most serious health hazards receive assistance in financing and implementing their asbestos abatement projects as quickly as possible. Because the Agency did not solicit new applications, but funded those already on hand, EPA supported less worthy projects in fiscal 1987 and 1988, while other projects with greater hazards were not considered.

Stronger Enforcement Action Required by EPA and States to Protect the Chesapeake Bay

The Chesapeake Bay Agreement, signed by EPA, the States bordering the Bay, and the District of Columbia in 1983 and updated in 1987, pledges to reduce nutrient loadings to the Bay by 40 percent, manage and control conventional pollutants, and reduce toxic pollutants entering the Bay. We found that EPA and the States did not effectively take enforcement actions against

Chesapeake Bay dischargers violating their NPDES permits. Even when the pollution was serious or longstanding, States were slow to act against the permit violators, assessing either insignificant penalties or no penalty whatsoever. EPA did not fulfill its responsibility for enforcement when the States failed to, and did not ensure that the States expeditiously and aggressively control toxic pollutants. For example, L.A. Clark, a Fredericksburg, Virginia, wood preserving facility, consistently violated its NPDES permit for 13 years without being assessed a penalty. The facility caused numerous environmental problems, including contamination of surface and ground water, before finally being placed on the Superfund National Priorities List in June 1986, with an estimated cleanup cost of \$23 million. Despite these environmental problems, L.A. Clark retained its NPDES permit for over 2 years after being declared a Superfund site.

EPA and States in Regions 2 and 4 Were Not Enforcing the Clean Water Act

EPA and States in Regions 2 and 4 were not effectively enforcing the Clean Water Act against violations of National Pollutant Discharge Elimination System (NPDES) permits by publicly owned treatment works. We found that enforcement actions taken by EPA and the States in Regions 2 and 4 were inadequate or ineffective in returning municipal violators to timely compliance. Regions 2 and 4 did not take timely and appropriate enforcement actions against polluters when States failed to carry out their permit enforcement responsibilities, resulting in facilities continuing to discharge inadequately treated effluent

Indecision of State and EPA Impeded Hazardous Waste Cleanup in Arkansas

Inadequate administration and coordination by EPA and Arkansas at two Superfund sites slowed cleanup actions and increased costs by \$6 million. At the Vertac site in Jacksonville, EPA and the State failed to agree on who was responsible for the incineration of leaking drums. The State took over 2 years to hire an incineration contractor while EPA paid \$4.7 million to pack and store the drums. At the Gramlich site in Fort Smith, Region 6 requested Headquarters' approval and \$258,000 to conduct an immediate removal of 800 cubic yards of PCB-contaminated soil. EPA Headquarters denied the request. The State conducted a \$50,000 cleanup in October 1982; the Region assumed this action cleaned up the site. EPA's post-removal sampling in 1988 determined that only 200 of the 800 cubic yards of PCB-contaminated soil had been removed by the State and that the contamination had spread to an additional 2,000 cubic yards at the site. As a result, EPA had to spend \$1.6 million to remove all 2,600 cubic yards of PCB-contaminated soil.

Improvements Still Needed in EPA's Contract Management

Despite improving its contract monitoring process, EPA was still not effectively administering contracts supporting the Office of Solid Waste (OSW). EPA's failure to properly manage contracts resulted in contractors performing unauthorized and unfunded work. We found that on 13 of the 43 contract actions reviewed, OSW personnel requested contractors to perform work before a formal agreement was reached. On four other contract actions, contractors performed work before funds were obligated or work that exceeded the estimated cost. As a result, contractors incurred an estimated \$532,723 in unauthorized or unapproved costs. EPA paid \$814,682 to contractors for work completed before an agreement was reached on how the work was to be performed and how much it should cost. Also, contractors were paid without EPA adequately reviewing progress reports and billing invoices.

New York Town Claims Over \$2.9 Million of Ineligible or Unsupported Costs

EPA awarded grants to the town of Amherst, New York, for the construction of sanitary and interceptor sewers, a lift and pump station, and additions and alterations to treatment facilities. We questioned \$2.9 million of the costs claimed, \$1 million as ineligible and \$1.9 million as unsupported costs. The ineligible costs included \$698,150 of architectural engineering fees allocable to another grant, costs claimed in excess of contract ceilings, and services outside the scope of the grant. As a result of our recommendations, the Agency sustained for recovery \$1,392,996 of the \$2.2 million Federal share of questioned costs.

Love Canal Superfund Costs Not Adequately Supported

The New York State Department of Environmental Conservation claimed \$17,619,773 for credit under the Superfund act of 1980 for non-Federal funds expended at Love Canal between January 1, 1978, and December 11, 1980. The credit was claimed toward offsetting the State's cost share requirement. We questioned \$5,140,503 of the net costs due to a lack of adequate documentation supporting the reasonableness and acceptability of costs claimed for property acquisitions, relocations, administrative and personal service costs, payroll, fringe benefits, supplies, and equipment. The New York State Department of Environmental Conservation has had ample opportunity to provide the necessary documentation to support the expenditures claimed. As a result of our recommendations, the Agency sustained for recovery \$3,940,503 that we questioned.

Audit Resolution

During fiscal 1989, the Office of Inspector General issued 1,920 new audit reports, of which 621 required resolution, and closed 676. Of the 357 audit reports in the follow-up system at year end, 94 reports remained for which no management decision was made within 6 months of issuance.

Of the audits closed, \$106.4 million of costs were disallowed by EPA management, including \$45 million to be recovered, and \$61.4 million were agreed to by management as funds to be put to better use. The Agency reported cost recoveries from current and prior periods of \$5.5 million in cash collections, and \$24.5 million in offsets against billings.

Examples of Audit Resolution Actions

Orange County Claims \$10 Million of Ineligible Costs

EPA awarded grants to the Orange County Sanitation District, Fountain Valley, California, for plans, design, and major construction improvements at Plant Number Two. We questioned over \$10.2 million of costs claimed, including \$6.2 million for construction in excess of approved limits, and \$2.7 million for work or services performed after authorized completion dates, performed before EPA approval, not approved or in excess of amounts approved, or not allocable to the approved project. As a result of our recommendations, the Agency sustained for recovery \$7,146,238 of the \$7.8 million Federal share we questioned.

Almost \$1.7 Million of Ineligible and Unsupported Costs Claimed in New Jersey

EPA awarded grants to the Western Monmouth Utilities Authority, New Jersey, for the construction of interceptor sewers, a pump station, force main, and upgrade of an existing secondary wastewater treatment facility to a tertiary facility. We questioned \$730,000 of the grantee's final claim as ineligible and \$960,000 as unsupported. As a result of our recommendations, the Agency sustained for recovery \$678,062 of the \$1,269,618 Federal share questioned.

During this fiscal year, our investigative efforts resulted in 74 indictments and convictions and over \$5.4 million of fines and recoveries in criminal and civil actions and from persons or firms who defrauded the Agency.

EPA Contractor Pleads Guilty To Being an Accessory to Theft of Government Property

SCS Engineers, Inc., of Reston, Virginia, pled guilty in November 1988 to charges of accessory after the fact to theft of U.S. Government property. As previously reported, Gary L. Mitchell, a former staff engineer with SCS Engineers, pled guilty in June 1988 to removing confidential procurement information from an EPA facility during 1985, before and during the solicitation for a technical support contract valued at about \$45 million. The investigation was based on an allegation from a competitor that GCA Technology Division, Inc, of Bedford, Massachusetts, possessed a copy of their bid proposal. At that time Mitchell was an SCS employee on an EPA project for the Office of Solid Waste. Further investigation determined that SCS Engineers knew of Mitchell's offense after the fact and assisted Mitchell. The information was taken to benefit SCS as a potential subcontractor to GCA, which subsequently received this information.

Illegal "Gray Market" Cars

We continued to work with Federal and State agencies investigating "gray market" auto dealers and emissions modifications and testing facilities who illegally sell, modify, or test imported cars that have been falsely certified to meet Federal standards. Gray market auto dealers import cars to the United States, modify them to meet U.S. safety and EPA emission standards, and resell them for far less than U.S. franchised dealers. However, some importers and modifiers falsely certify or induce others to falsely certify that the cars meet Federal Clean Air Act standards.

In one case, an importer was sentenced to two years imprisonment, to be followed by a 5 year term of probation, for illegally importing gray market Mercedes Benz automobiles to the U.S. and making false statements to EPA regarding such automobiles. The investigation revealed that approximately 250 vehicles had been illegally imported into the United States through the Port of Jacksonville, Florida.

In another case, the owners of L&L International, Inc., Wilmington, North Carolina, and Auto Craft Canada and Exotic Motors, Ontario, Canada, were indicted on charges of mail fraud, forgery, currency violations, and violations of EPA and DOT regulations, stemming from the import and sale of foreign sports cars. L&L International imported European luxury vehicles, made the modifications necessary to convert them and resold them in the United States.

Bus Pass Money Taken by Region 6 Employee

In November 1988 a Region 6 employee was sentenced to 3 years probation, 100 hours of community service, and was directed to enter a mental health program for keeping \$8,000 due the Dallas Area Rapid Transit (DART) system for bus passes sold to EPA employees. For over 8 months, the employee received bus passes worth approximately \$71,500 from DART for resale to EPA employees. The unsold passes (but no money) were returned to DART in March 1988, a month after the employee's resignation from EPA. The Assistant U.S. Attorney asked that restitution of the stolen money be part of the sentence, but the judge declined because the employee did not have any money. This investigation was a joint effort by EPA OIG and the Department of Transportation OIG

Three EPA Headquarters Employees Sentenced in AMTRAK Fraud Scheme

Three EPA Headquarters employees were sentenced in Washington, D.C., on October 7, 1988, for their roles in an attempt to defraud AMTRAK by submitting false lost luggage claims. The total dollar amount of the fraud was \$5,000, representing 10 individual false claims.

One employee received a sentence of 2 years probation and 100 hours of community service, plus restitution of \$4,750. The employee also received a 30 day suspension from EPA. Two other employees got 1-year probation, 50 hours of community service, and \$100 restitution. One received a 7-day suspension from EPA, and the other received a letter of reprimand.

Former EPA Asbestos Inspector Pleads Guilty to Conspiracy Charge

Howard Stecker, a former EPA Region 2 asbestos inspector, pled guilty on June 26, 1989, to conspiracy to accept bribes of more than \$170,000 from asbestos removal contractors from 1983 through 1987. Stecker was bribed to overlook violations of EPA rules and regulations regarding asbestos removal projects conducted by the contractors, and to avoid job sites at which asbestos removal projects were being carried out. EPA regulations require that specific practices be used during demolition and renovation of structures containing asbestos to minimize the potential exposure of workers and the general public. A joint investigation of Stecker and asbestos removal contractors in the New York metropolitan area by the EPA Office of Inspector General and the Office of Labor Racketeering of the U.S. Department of Labor has resulted in the indictment of 28 contractors, representing 19 companies. To date, \$606,000 in fines have been assessed.

Connecticut Quintet Pleads Guilty in Asbestos Case

James McGuire, president of the United Painting Co., Bethel, Connecticut, and four of his employees, *Christopher Weldon, Jennifer Gabaordi, Christopher Gabaordi, and Steven Kovacs*, pled guilty to charges arising from United's use of workers who were neither trained nor certified by an EPA-approved training program to remove asbestos from public school buildings in Bethel and Stamford, Connecticut. McGuire pled guilty to making false statements to a Government agency, the employees were charged with violating the Toxic Substances Control Act.

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.

A nonprocurement debarment or suspension by one Agency is effective in all. The General Services Administration (GSA) publishes a "List of Parties Excluded from Federal Procurement or Nonprocurement Programs."

In fiscal 1989, 72 debarment or suspension actions were taken. Examples include:

EPA debarred B.E.S. Environmental Specialists (BES) and its founder, Richard Baranowski, on June 12, 1989, for 21 months. BES was the emergency removal contractor on the Brown's Battery site in Berks County, Pennsylvania. Based on an EPA OIG investigation, the hearing officer found that Baranowski had done free construction work on the on-scene coordinator's house and had taken him on an expense-paid Canadian vacation. BES' refusal to turn over records to the Office of Inspector General for an audit was another ground for debarment. Prior to the decision, BES had been suspended for 11 months.

Denver Asbestos Control Technology, Inc., (DACT), Rocky Mountain Applications, Environmental Contracting Services and their officers, Joel Lederman and James Hellman, have been debarred from participation in Federal programs for 3 years. The debarment followed Lederman's plea of guilty to submitting false statements certifying the health conditions of DACT employees, and aiding and abetting in connection with asbestos violations. Hellman pled guilty to bribery and making false statements concerning loan or credit applications in connection with the asbestos program.

Eason & Smith Enterprises, Inc. (E&S) of Oklahoma City, Oklahoma, signed a compliance agreement with EPA excluding them from participation in EPA assistance programs. E&S was convicted of unlawfully storing hazardous wastes in violation of Resource Conservation and Recovery Act requirements.

Paxson Electric Company of Jacksonville, Florida, was debarred for two and one-half years on November 7, 1988. Also debarred for the same period was Wesley C. Paxson, Sr., president of the firm. The company and Mr. Paxson had been convicted of bidrigging and mail fraud resulting

from their participation in a conspiracy to submit collusive, complementary and rigged bids for electrical work at the EPA-funded Snapfinger Creek Waste Water Treatment Plant in DeKalb County, Georgia.

Three officials of the Denver Colorado Sanitary Company were debarred on January 17, 1989, as accessories to the company's conviction of making false statements and illegally storing and transporting hazardous waste to an unpermitted facility. The company also accepted a voluntary exclusion for 20 months.

Personnel Security Program Protects EPA

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 1989, 600 investigations were reviewed, resulting in:

- Fourteen EPA employees were required to submit corrected SF-171s for failing to disclose previous misdemeanors and convictions.
- Two employees were suspended, for 7 days for falsifying the SF-171, one for numerous arrests and convictions while employed in a sensitive position and the other for not listing a conviction for possession of controlled substances when applying for a promotion.
- One employee was suspended for 14 days for omitting previous convictions and prior firings in applying for employment with EPA on a SF-171
- Two employees were terminated during the probationary periods, one for unprofessional conduct, the other for materially falsifying the SF-171

Committee on Integrity and Management Improvement (CIMI)

The Committee on Integrity and Management Improvement coordinates the Agency's efforts to minimize the opportunities for fraud, waste, and mismanagement and advises the Administrator on policies to improve the efficiency and effectiveness of EPA's programs and operations. Chaired by the Inspector General, CIMI completed several projects, including Awareness Bulletins on bribes and gratuities and disposition of official records and personal papers, a leaflet on the Federal Telecommunications Systems, a computer security advisory, special events during Public Service Recognition Week, and three posters designed to increase employee awareness of ethics.

Human Resources Council (HRC)

The OIG HRC, composed of 16 OIG employees representing all grade levels and geographical locations, advises and assists the Inspector General in developing effective policies, strategies, and programs for employee development and work force management. Some of the HRC's significant accomplishments during fiscal 1989 included developing a booklet which describes the physical exam, counseling, and fitness services available at Headquarters and each EPA region; and an orientation session for new OIG employees at Headquarters. Also, as a result of an HRC project, the OIG initiated a 5/4-9 compressed work schedule. This schedule has since been adopted by nearly all EPA Headquarters offices.

The OIG Hotline Center received 82 new complaints and closed 72 cases during fiscal 1989. Of these, 19 resulted in environmental, administrative, or prosecutive action. We also received 1,496 calls in which callers were referred to the appropriate program office, State agency, or other Federal agency for assistance.

The following are examples of corrective action taken as a result of information provided to the hotline center.

- A complaint alleged that an EPA manager used Government materials and employees to perform work at his home on government time. A review of the complaint disclosed that the manager used government employees to perform repairs and maintenance on his home on three occasions. In addition, a government employee and government materials were used to construct a personal item for the manager on government time. As a result of this misuse of government personnel and property, the manager's employment with EPA was terminated.
- A complaint alleged that medical waste was being improperly burned and that the particles emitted were endangering nearby homes and foliage. A review of the complaint disclosed that a local hospital had been ordered by the State to extend its incinerator stack. The hospital complied but failed to extend the stack high enough to prevent a downwash of emissions into the surrounding community. The State subsequently required the hospital to develop a plan to reduce emissions from its incinerator and to increase the height of the incinerator stack to prevent pollution of the neighborhood. The State also drafted new regulations for hospital waste incinerators.
- A complaint alleged waste of Government funds. A review of the complaint disclosed that new file cabinets were repainted and new desk tops were provided for Superfund work stations to coordinate the color scheme, at a cost of \$27,225, plus \$350 for overtime of personnel to supervise the repainting. The complaint also disclosed that unserviceable excess furniture had been shipped between Regions and then stored in a commercial warehouse for 4 months, at a cost of \$10,738, pending GSA approval for disposal since it had no market value. The office that transported the furniture continued to carry the items on the property records because property transfer documents were not prepared. As a result of this complaint, the Agency improved the controls over the procurement and management of property, furniture, and equipment.

U.S. Environmental Protection Agency

Logistics Division (EPC-10)
300 North Dearborn Street, Room 1670
Chicago, IL 60610

If you are aware of any fraud, waste, or mismanagement, please contact the EPA Inspector General Hotline or the appropriate Divisional Inspector General listed on the second panel of this brochure.

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

Remember, Act Like It's Your Money—It Is!