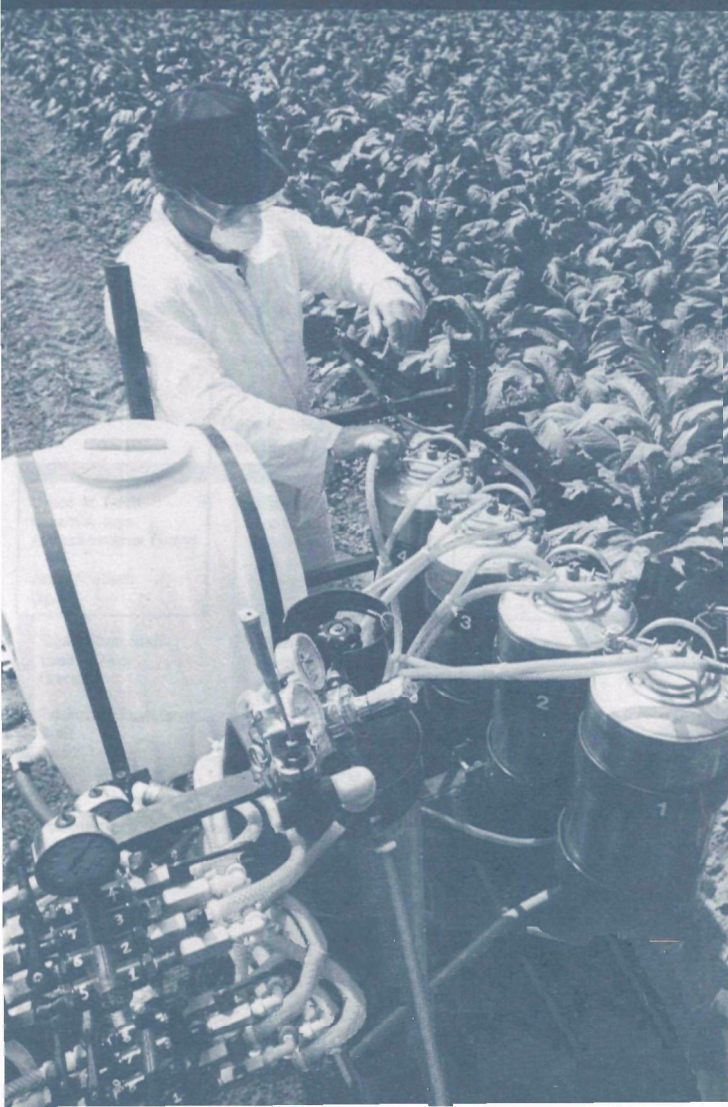




EPA Office of Inspector General Report to Congress

HIGHLIGHTS

Fiscal 1991



Office of the Inspector General

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

At EPA, the OIG's role is to review EPA's financial transactions, programs, and administrative activities; investigate allegations or evidence of possible criminal, civil, and administrative 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

Inspector General

John C. Martin

Deputy Inspector General

Anna Hopkins Virbick

Office of Audit

Kenneth A. Konz
Assistant Inspector General

James O. Rauch
Deputy

Office of Management

John C. Jones
Assistant Inspector General

Office of Investigation

Daniel S. Sweeney
Assistant Inspector General

Deputy
Vacant

Operations Staff

Elissa R. Karpf
Director

Technical Assistance Staff

Gordon Milbourn
Director

Planning and Resources Management Staff

Kenneth Hockman
Director

Technical Assessment and Fraud Prevention Division

Earline Broaden
Director

Administrative and Management Services Division

Michael J. Binder
Director

OIG Divisional Inspectors General are listed on the back panel.

Profile of Activities and Results

Information reported in the semiannual report for the period ending March 31, 1991, may have been adjusted subsequent to the end of that period. Consequently, totals for the semiannual periods ending March 31 and September 30, 1991, may not add to the fiscal year totals presented below.

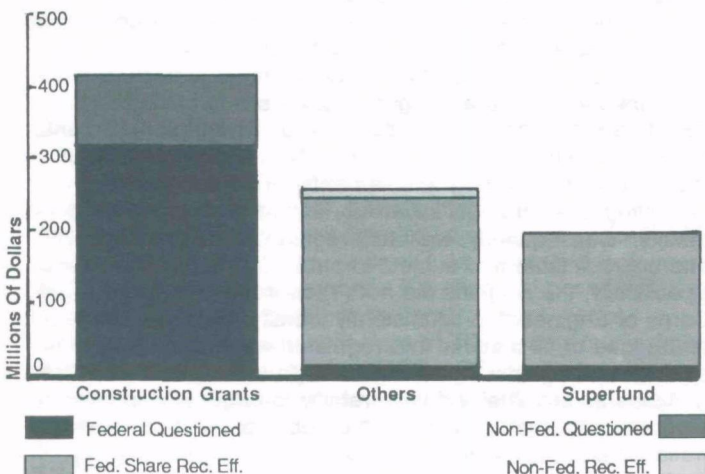
Audit Operations	Fiscal 1991 (Dollars in Millions)
• Questioned Costs - Total*	\$451.6
- Federal Share	\$339.8
• Recommended Efficiencies (Funds be Put to Better Use)	
- Total*	\$444.5
- Federal Share	\$428.4
• Costs Disallowed to be Recovered	
- Federal Share	\$ 73.6
(costs which EPA management agrees are unallowable and is committed to recover or offset against future payments)	
• Costs Disallowed as Cost Efficiency	
- Federal Share	\$ 69.2
(funds made available by EPA management's commitment to implement recommendations in OIG performance or preaward audits)	
• Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments)**	\$ 80.3
• EPA Audits Performed/Issued by OIG	1,688
• Audit Reports Resolved (agreement by Agency officials to take satisfactory corrective action)	517
Investigative Operations	
• Fines and Recoveries (including civil)	\$8.2
• Investigations Opened	257
• Investigations Closed	284
• Indictments of Persons or Firms	55
• Convictions of Persons or Firms	27
• Administrative Actions Taken against EPA Employees	49
Fraud Detection and Prevention Operations	
• Debarments, Suspensions, Voluntary Exclusions, and Settlement Agreements (actions to deny persons or firms from participating in EPA programs or activities because of misconduct or poor performance)	238
• Hotline Cases Opened	64
• Legislative and Regulatory Items Reviewed	130
• Personnel Security Investigations Adjudicated	816

*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 on recoveries from audit resolution is provided by the EPA Financial Management Division and is unaudited.

Audit Activities

Questioned Costs And Recommended Efficiencies By Type Of Audits—Fiscal 1991



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.

Effects of Many Inert Ingredients In Pesticides Are Unknown

EPA had not promptly reviewed about 1,300 inert ingredients in pesticides of unknown toxicity to determine whether they pose potential adverse effects to human health and the environment. Inert ingredients in pesticides serve as a solvent, thickener, or propellant to make them more effective or usable. EPA issued an Inerts Strategy in 1987 classifying inerts into four categories: (1) those of unknown toxicity (1,300), (2) those known to be toxic (56), (3) those potentially toxic (68), and (4) those generally recognized as having no toxic effect (300). The Strategy did not detail how EPA would address those inerts of unknown toxicity even though they were the largest category. As a result of EPA's actions, the toxic inert ingredients identified in the Inerts Strategy had been removed from most of the 1,228 products previously containing these inert ingredients. However, EPA had not completed several other actions intended to reduce the risk from pesticides containing toxic inert ingredients, including completing the review of 68 inerts identified as potentially toxic for reclassification as toxic or generally safe.

Improvements Needed To Protect Wetlands

Protection of the nation's wetlands from the discharge of dredged or fill material was undermined by EPA's inconsistent program implementation. Significant management improvements are needed in EPA's wetlands protection program if legislative and Agency goals are to be achieved. EPA had not established measurable goals and commitments for regional wetlands activities. Regional implementation of the basic wetlands program elements--enforcement, permitting, and strategic initiatives--varied in emphasis and results. Consequently, wetlands regulation was inconsistent and unpredictable and subject to public distrust and criticism. Specifically, the Regions did not (1) coordinate with the Army Corps of Engineers to consistently identify illegal discharges of dredged or fill material into regulated waters and take enforcement against those violators, (2) identify and prioritize wetlands as to value and vulnerability to target limited program resources and inform the public of most threatened wetlands, and (3) maintain sufficient data to take regulatory decisions.

EPA'S \$20 Million Financial Management System May Not Meet Agency Needs

Despite its projected \$20 million cost (more than double its initial estimate of \$7.7 million), EPA had not devoted sufficient attention or resources to effectively implement its new Integrated Financial Management System (IFMS) that would combine accounting and budgeting systems with other financial and administrative systems. EPA had delegated the task of implementing IFMS to committees, composed largely of part-time employees. Completion of the initial 3-year project had been extended 3 years. Many key requirements for developing a major information system were not met. For example, the Agency had not updated its needs statement, feasibility study, and cost-benefit analysis since 1986. Also, the Agency had not complied with other key Agency and Federal requirements for a system, including (1) adequate system testing, (2) risk analysis of the entire IFMS, and (3) adequate training and provision of guidance to users. Significant data integrity and security problems led to user dissatisfaction and the development of duplicate systems. Agency management agreed with our findings and has taken actions to significantly improve the Financial Management System.

EPA Did Not Aggressively Pursue Regulation Of Potentially Harmful Chemical Substances

EPA's Office of Toxic Substances (OTS) had regulated few existing chemicals thought to pose a significant risk to humans. There are over 60,000 existing chemicals in the Toxic Substances Control Act (TSCA) inventory, of which about 10,000 potentially pose a health risk. OTS had not followed established guidelines for designating chemicals for priority review if data indicates a chemical may pose a substantial risk from cancer, genetic mutations, or birth defects. Also, OTS had not developed adequate procedures to expedite ongoing priority reviews. As a result, it took years for OTS to review and determine if a chemical posed an unreasonable risk to health or the environment. Since January 1, 1977, the effective date of TSCA, only four existing chemicals had been regulated (PCBs, CFCs, dioxin, and asbestos). The Agency agreed with our findings and began implementing our recommendations.

EPA Region 8 Created A Personal Services Relationship With Support Contractor

Region 8's administration of support contracts with Computer Sciences Corporation (CSC) created a personal services relationship between EPA and CSC contract employees, thereby violating federal civil service laws and the Federal Acquisition Regulation. Delivery order project officers prepared broad statements of work which were not adequate to ensure that CSC would perform needed tasks and services. Region 8 personnel extensively supervised CSC employees to ensure they performed tasks and services as intended. CSC employees were commingled with Region 8 employees, were furnished principal tools and equipment, and performed ongoing services which lasted more than 1 year and were expected to continue indefinitely. Region 8 regarded CSC employees as an integral part of the Region's organization in carrying out EPA's mission, and paid CSC for more hours than its employees worked. The Agency agreed with our findings and has committed to take corrective action.

EPA Unnecessarily Delays Responsible Parties From Cleaning Up Hazardous Sites

Completions of Superfund cleanups in 3 of 4 EPA regions were unnecessarily delayed by untimely review of responsible parties' (RP) work products, failure to enforce stipulated penalties against RPs for noncompliance with voluntary agreements, and inadequate monitoring of contractors,

possibly further degrading the environment. At 24 of 39 sites reviewed, EPA's review and approval of RP documents and plans took up to 36 months due to lack of guidelines for completing reviews; unauthorized extensions; multiple revisions of documents; lack of a milestone tracking system; and personnel turnover.

EPA regions were not assessing stipulated penalties for RPs' noncompliance with post-settlement milestone dates. For 15 sites in noncompliance, for example, the regions assessed penalties against RPs in only three cases totaling \$45,000, failing to assess potential penalties of \$4,855,500 against RPs in seven other cases. EPA also gave up potentially \$8 million in sanctions against RPs by not referring them for enforcement action. The regions generally limited their enforcement actions to verbal negotiations or warning letters. The Agency agreed with our findings and had initiated corrective action.

EPA Overstated Remedial Action Starts In Its Report To The Congress

Inadequate documentation and insufficient controls resulted in EPA incorrectly reporting to Congress that it had met the National Priorities List (NPL) remedial action starts requirement of the Superfund Amendments and Reauthorization Act of 1986 (SARA). In an October 17, 1989, report to Congress entitled "Commencement of Post-SARA Remedial Actions," EPA stated that it had started 178 remedial actions at NPL sites. We found that many of the reported 178 remedial actions did not represent the start of initial, substantial, and continuous physical on-site cleanup actions at the most contaminated NPL sites. From our sample of 42 remedial actions included in the report, we concluded that 28 actions did not meet the criteria established by SARA and its legislative history.

Los Angeles Claimed \$90.3 Million In Questioned Costs

EPA awarded nine grants totaling \$101,520,254 to the City of Los Angeles for various projects, including the design and construction of a wet weather water reclamation plant; the planning, design and construction of a sludge processing and disposal system; portions of the Hyperion Energy Recovery System; and various tank modernization projects. We questioned \$10,871,601 of the grantee's final claim as ineligible, and \$79,434,029 of project costs as unreasonable, including \$57,928,957 claimed for the underutilized Tillman Reclamation Plant. Although the plant was designed and constructed as a reclamation plant, at an increased level of expenditure and funding, it was not being used to reclaim any wastewater.

Grantee's \$36.8 Million Project Claim Questioned After 12 years of Violating Discharge Limitations

EPA awarded two grants to Gary, Indiana, Sanitary District (GSD) for modification of an existing wastewater treatment plant and the training of facility operators. Because of its inability to properly operate and maintain the modified plant, GSD has consistently violated its National Pollutant Discharge Elimination System permit since 1978. In 1983, EPA obtained a final Consent Decree requiring GSD to comply with the effluent limitations specified in its permit and, in 1984, the United States filed a Motion to Enforce the Consent Decree. EPA filed an additional complaint in 1986 against the grantee for violations of the Toxic Substances Control Act (TSCA). To settle the Motion to Enforce and the TSCA complaint, EPA entered into a modified Consent Decree in 1987 requiring several actions by GSD.

We found that GSD still had not complied with the modified Consent Decree, and we questioned as ineligible the grantee's total claimed costs of \$36,853,715. Should the grantee eventually comply with the Consent Decree, almost \$4 million will still remain questioned as ineligible or unsupported.

Inefficient Contracting Practices May Cost EPA An Extra \$10.7 Million for Automatic Data Processing (ADP) Equipment And Services

EPA was delayed in competitively awarding a contract to procure workstations and other ADP equipment having an estimated value of \$206 million. (Even if awarded in December 1991, as planned at the completion of our review in July 1991, the competitive award would be 19 months overdue.) As a result, assuming full contract performance, EPA could incur excess costs of as much as \$8.4 million over the life of an interim contract awarded to a small and disadvantaged firm for such equipment. EPA did not use all available means to modify the contract to take advantage of decreasing market prices after the interim contract's award. Also, EPA did not perform a sufficiently thorough analysis of cost data provided by the contractor during negotiations and could pay \$2.3 million more than the contractor actually incurs for certain expenses, such as freight, rent, and insurance.

Audit Resolution

During fiscal 1991, the Office of Inspector General issued 1,688 audit reports and closed 517. Of the 309 audit reports in the follow-up system at year end, 68 reports remained for which no management decision was made within 6 months of issuance.

For the audits closed, \$73.6 million of questioned costs were disallowed for recovery, and \$69.2 million were agreed to by EPA management as funds that could be put to better use. The Agency reported cost recoveries from current and prior periods of \$11.5 million in cash collections and \$68.8 million in offsets against billings.

Significant Problems Render EPA's Audit Followup System Unreliable

Our September 1991 report, the fourth in a series assessing the Agency's audit followup program, found that data in EPA's Management Audit Tracking System (MATS) was still incomplete and incorrect. We found that EPA Management's Semiannual Reports to the Congress on Audits for fiscal 1990 produced from the system were seriously flawed. The reported number of audits on which final corrective actions had been taken was inaccurate and reported recoveries as a result of audit findings were grossly understated. Our review of three EPA regions found unreported recoveries (\$7.4 million) were almost as much as the Agency reported (\$8.3 million) for all 10 regions. Also, an additional \$7.4 million of disallowed costs that were reduced through the appeals process in those three EPA regions were not reported as writeoffs in either of the 1990 semiannual reports to Congress.

Region 9's Air Grants Program Deficiencies Not Corrected

In March 1987 we reported that Region 9's air grants program was hindered by inadequate controls. Air grants totaling \$2.6 million for fiscal 1983 through fiscal 1985 were identified as ineligible. Our followup report found that Region 9 had not developed effective procedures to (1) ensure that grant recipients meet the statutory maintenance of effort (MOE) requirements and (2) monitor grant performance. Four of the grantees discussed in our prior audit still had not met their required MOE requirements for all grants awarded. Of the \$2.6 million of ineligible grants made from fiscal 1983 to fiscal 1985, \$1.5 million had not been recovered and grantees received about \$1.9 million of additional ineligible grants.

Investigative Activities

During this fiscal year, our investigative efforts resulted in 55 indictments, 27 convictions and over \$8.2 million of fines and recoveries from persons or firms who defrauded the Agency.

Superfund Contract Laboratory Program Investigation

The Office of Investigations has a major investigative initiative underway within the Superfund program, directed at fraud in the Contract Laboratory Program (CLP). Laboratory analyses under the CLP are the empirical basis for the entire Superfund program. Based on testing for the presence of hazardous chemicals by these laboratories, the Superfund program decides which cleanups to initiate and how to carry them out. Fraudulent analyses could result in a danger to the public health and safety as well as the unnecessary expenditure of cleanup funds. In addition, fraudulent analyses could hinder the Department of Justice's efforts to collect the cost of cleanups from the responsible parties.

Two actions resulting from the contract lab investigations are described below.

Major Testing Firm Fined \$1 Million

United States Testing Company of Hoboken, New Jersey, a subsidiary of SGS North America, Inc., (a part of the SGS Group, the world's largest inspection and testing company with over 21,000 employees in 140 companies), pled guilty in April to making false statements to EPA. The company was ordered to pay a \$100,000 criminal fine and to repay the entire contract price of \$869,486.90 as restitution to the United States.

U.S. Testing admitted to backdating tests of water and soil samples at Superfund sites. U.S. Testing, by "peak shaving" (manual manipulation of calibration), which violated the required testing sequence, sought to disguise its failure to conduct timely tests.

Connecticut Company Backdated Results, Used Unapproved Lab

A Connecticut company, YWC Inc., pled guilty in December 1990 to two charges of making false statements to EPA and was fined \$500,000. EPA's contract with YWC required them to analyze water samples within seven days of receipt and soil samples within 10 days. YWC's York Laboratories Division facility in Monroe, Connecticut, was an approved CLP site. YWC was charged with backdating over 60 analyses and using a then-unapproved laboratory at Whippany, New Jersey, to do the analyses.

Electrical Contractors Sentenced for Racketeering

Michael Gelb, president, and Thomas Gelb, vice president, Federal Chandros Inc., were sentenced in December 1990 for their involvement from 1980 to 1986 in a scheme to defraud the City of New York by submitting false or fraudulently altered payment claims for electrical work to various City agencies. One of the projects involved was the Owls Head Water Pollution Control plant, which was funded by an EPA construction grant. The Gelbs photocopied original invoices paid by Federal Chandros and subsequently altered dollar amounts and delivery information. They then submitted them to the City for payment. The fraudulent billings for the Owls Head plant totalled \$79,180. Michael Gelb was sentenced to 11 months in jail and fined \$20,000. His brother received a seven month sentence and was also fined \$20,000.

Fraud Alleged at Superfund Cleanup Site

Terry Lee Tebben and Daniel Workman, employees of Geo-Con, Inc., a Pennsylvania company, have been charged with fraud in connection with the cleanup of a Superfund site at Bruin Lagoon, Butler County, Pennsylvania. EPA funded a \$4 million contract with Geo-Con to clean up the lagoon, which was used by the Bruin Oil Company since the 1930's and contaminated with, among other things, sulfuric and hydrochloric acid.

Tebben allegedly used the finger of a rubber glove and grease to cover up the air monitors required by the contract, causing them to give false readings on the amount of hazardous gases being released.

Workman of Geo-Con also allegedly pumped air through the water metering system, leading to \$62,000 in false claims for reimbursement for water treated.

Unregistered Pesticides Shipped Abroad

Kamal Salieb Gabra of New Jersey pled guilty to charges that his three businesses—Liberty International Agricultural Products, Nevacide Ltd, and Hercules Chemicals USA—sold mislabeled, unregistered pesticides to overseas companies in violation of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), which is administered by EPA.

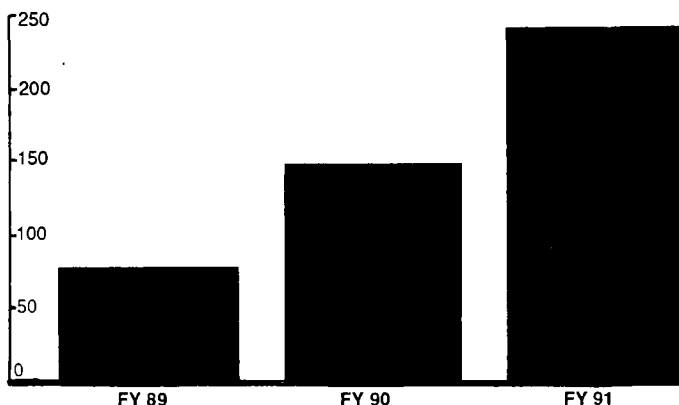
Fraud Prevention Activities

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 debaring 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 business risk to the Government.

Both procurement and nonprocurement debarments or suspensions by one agency are effective in all agencies.

Suspension/Debarment Activities



Includes suspensions, debarment, and voluntary settlements

In fiscal 1991, 238 debarment or suspension actions were taken. Examples include:

- Based on an OIG proactive investigation, John G. Mason, a contract wastewater treatment operator, was found guilty of submitting fraudulent effluent reports, required under the National Pollutant Discharge Elimination System, to the State of North Carolina. He was sentenced to jail and fined. Mason was also debarred from all Federal procurement and non-procurement programs for 3 years.
- Chem-TLE Environmental Services, Inc. (Chem-TLE), the EPA Emergency Response Cleanup Services Zone Contractor responsible for cleaning up a dioxin site in Lexington, Kentucky, was charged with submitting false claims to the EPA. EPA suspended and subsequently debarred Chem-TLE from all future assistance, loan and benefit programs and direct Federal procurement for three years. EPA also debarred B.F. Rippey Jr., Chem-TLE's operations manager, and Thomas L. Ewing, the President of Chem-TLE.

- Dominic Nicassio, Inc. (DNI), Dominic Nicassio, Western Pennsylvania Minority Enterprises Inc. (WPME), and Eugene Minard all allegedly participated in a scheme to fraudulently obtain EPA-funded sewer construction contracts totaling millions of dollars by misrepresenting that WPME was a legitimate minority business enterprise. EPA has suspended WPME, Minard, DNI and Dominic Nicassio.
- Jerome Brown, president of U.S. Brick Corp. (USBC), Brooklyn, N.Y., and an officer of Atlantic Demolition, Inc. (ADI) was convicted of bribing an asbestos inspector. All respondents were suspended by EPA, and USBC was debarred for 3 years.

Personnel Security Program

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 1991, 816 investigations were reviewed, resulting in the following actions:

- 2 employees resigned prior to administrative removal for falsifying their SF-171s, Applications for Federal Employment, by not listing previous convictions for drug trafficking and writing worthless checks.
- 6 employees received oral reprimands/verbal counseling regarding failure to report delinquent taxes, delinquent debts, and previous convictions for driving while intoxicated.
- 3 employees received written reprimands for falsifying their SF-171s by not listing previous terminations and convictions.
- 3 employees received 14-day suspensions for not listing prior convictions on the SF-171.
- 11 employees had to submit corrected SF-171s for failure to list minor offenses.

Hotline Activities

The OIG Hotline Center opened 64 new cases and completed and closed 47 cases during fiscal 1991. Of the 47 cases closed, 14 resulted in environmental, administrative, or prosecutive action. We also received 4,157 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 resulting from calls to the OIG Hotline Center:

- A complainant alleged that a manufacturing company had dumped chemical wastes in or near water supplies. A review of the complaint disclosed illegal activity which resulted in a joint investigation by EPA's Chicago Criminal Investigations Division, the Federal Bureau of Investigation, and the U.S. Army Criminal Investigation Division. As a result, a federal grand jury in Michigan indicted six individuals for conspiracy; unlawful treatment, storage and disposal under RCRA; and failure to report a release under CERCLA.
- A complainant alleged that an EPA project manager accepted gifts in return for influencing contract awards. A review of the complaint disclosed that the project manager had a close personal relationship with a contractor's family and that the employee should have recused himself from managing and evaluating the contractor. The project manager's failure to take this step created a reasonable appearance of giving preferential treatment. As a result of this complaint, the employee has been counseled, reassigned, and received a written reprimand.

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 back panel.

- Information is confidential.
- Calls can be made toll free on (800) 424-4000. Callers in area code 202 should use 260-4977. FTS network callers may also use 260-4977.

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

Divisional Inspectors General

Region	Subject	Name	Telephone
Headquarters	Audit (Internal Audit Div)	Edward Gekosky	FTS 678-8222 (703) 308-8222
	Investigations (Wash. Fld Office)	Francis C. Kiley	FTS 678-8282 (703) 308-8282
1 & 2	Audit	Paul McKechnie	FTS 835-3160 (617) 565-3160
	Investigations	Robert M. Byrnes	FTS 264-0399 (202) 264-0399
3	Audit	Paul R. Gandolfo	FTS 597-0497 (215) 597-0497
	Investigations	Martin Squitieri	FTS 597-9421 (215) 597-9421
4 & 6	Audit	Mary Boyer	FTS 257-3623 (404) 347-3623
	Investigations	James F. Johnson	FTS 257-2398 (404) 347-2398
5	Audit	Anthony Carrollo	FTS 353-2486 (312) 353-2486
5, 7 & 8	Investigations	Alex Falcon	FTS 353-2507 (312) 353-2507
7 & 8	Audit	Nikki Tinsley	FTS 276-7824 (913) 551-7824
9 & 10	Audit	Truman R. Beeler	FTS 484-2445 (415) 744-2445
	Investigations	H. Brooks Griffin	FTS 484-2465 (415) 744-2465

