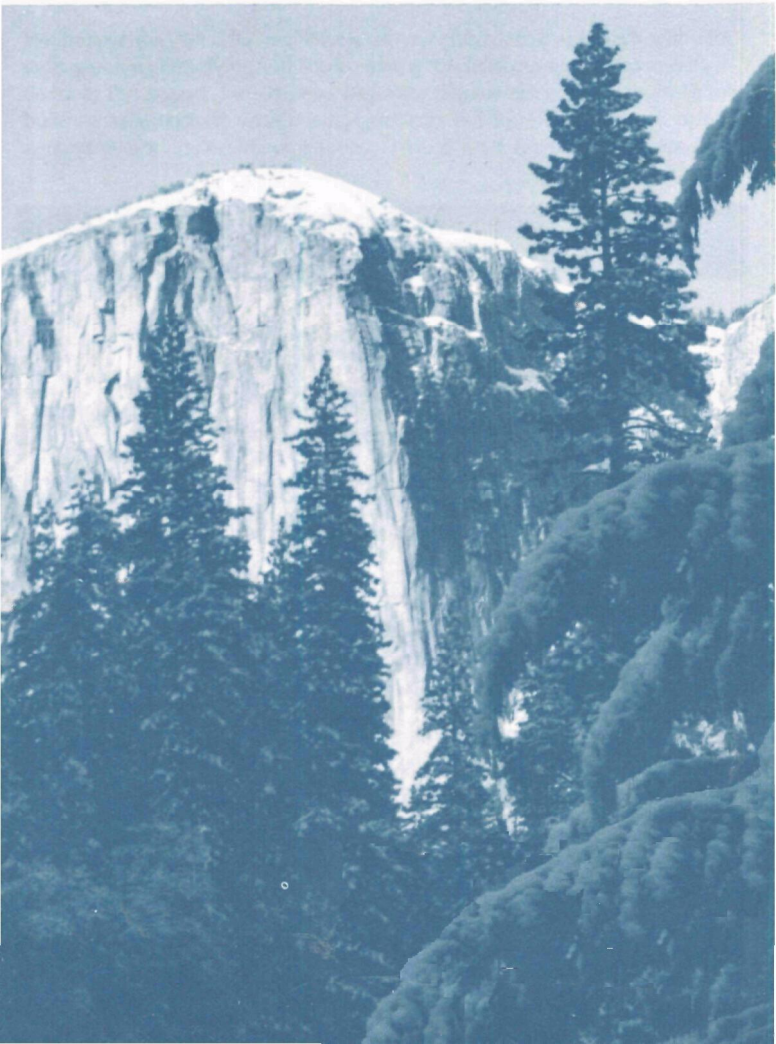


February 1994

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

HIGHLIGHTS

Fiscal 1993



Office of Inspector General

The Inspector General Act of 1978, as amended, created Offices of Inspector General (OIG) to consolidate existing investigative and audit resources in independent organizations headed by Inspectors General. For fiscal 1993, the EPA OIG received \$42.8 million and a funded staffing level of 414 FTE. The Inspector General (IG) is appointed by, and can be removed only by, the President. The mission of the OIG, as stated in the Act, is to:

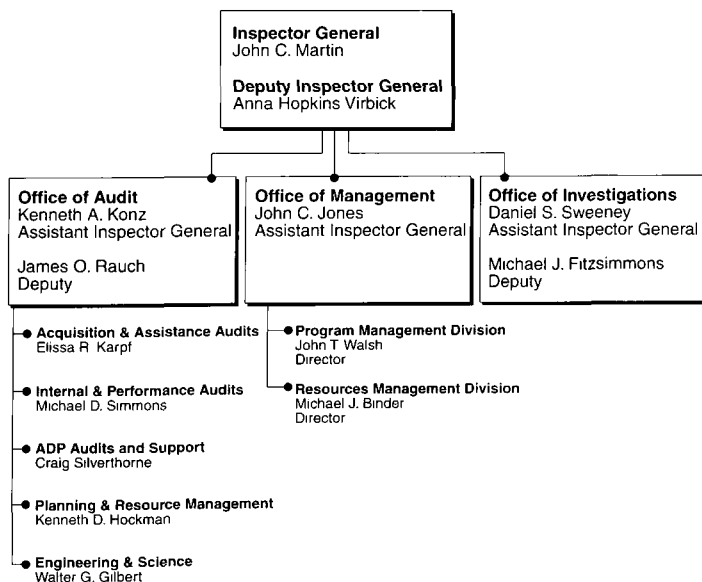
- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs.

To ensure objectivity, the Act provides the IGs:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

We believe that the OIG has always taken a cooperative approach with EPA management in resolving and implementing results of our audits and investigations. In this regard, the OIG has begun to place even greater emphasis on building relationships with agency program managers based on a shared commitment to improving operations. Currently, for example, in response to

Office of Inspector General



OIG Divisional Inspectors General are listed on the inside back panel.

congressional requests for broad, top-level reviews of EPA's financial management and information resources management program, we are working with Agency personnel to catalog all significant causes of EPA's problems in these areas and to make recommendations to the Administrator for effective solutions.

The OIG has taken or planned a number of other initiatives to enhance this cooperation, such as:

- The OIG will solicit and consult with program management and employees to get more of their input on our strategic and annual work plans to ensure that our focus is on the critical areas of the Agency's operations.
- More OIG resources are being directed to conducting performance audits to analyze how well programs are meeting their goals and recommending changes in program design and management techniques to increase efficiency and improve program results. We will focus more on causes of problems.
- Our reports will expand on examples of successful program management practices that can be adapted for use in other agency programs.

Profile of Activities and Results

Information reported in the semiannual report for the period ending March 31, 1993, may have been adjusted subsequent to the end of that period. Consequently, totals for the semiannual periods ending March 31 and September 30, 1993, may not add up to the fiscal year totals presented below.

Audit Operations (dollars in millions)	Fiscal 1993
• Questioned Costs (Ineligible, Unsupported and Unnecessary/Unreasonable)	
Total*	\$387.3
- Federal Share	\$276.6
• Recommended Efficiencies (Funds be Put to Better Use)	
Total*	\$73.9
- Federal Share	\$63.2
• Costs Disallowed to be Recovered	
- Federal Share	\$78.2
(costs which EPA management agrees are unallowable and is committed to recover or offset against future payments)	
• Costs Disallowed as Cost Efficiency	
- Federal Share	\$13.0
(funds made available by EPA management's commitment to implement OIG recommendations)	
• Recoveries from Audit	\$43.1
Resolutions of Current and Prior Periods (cash collections or offsets to future payments)**	
• EPA Reviews Performed/Issued by OIG	1,572
Investigative Operations	Fiscal 1993
• Fines and Recoveries (including civil)	\$20.5
• Investigations Opened	286
• Investigations Closed	297
• Indictments of Persons or Firms	29
• Convictions of Persons or Firms	22
• Administrative Actions Taken against EPA Employees	35
Fraud Detection and Prevention Operations	
• Debarments, Suspensions, and Compliance Agreements	106
(actions to deny persons or firms from participating in EPA programs or activities because of misconduct or poor performance)	
• Hotline Cases Opened	82
• Legislative and Regulatory Items Reviewed	158
• Personnel Security Investigations Adjudicated	840

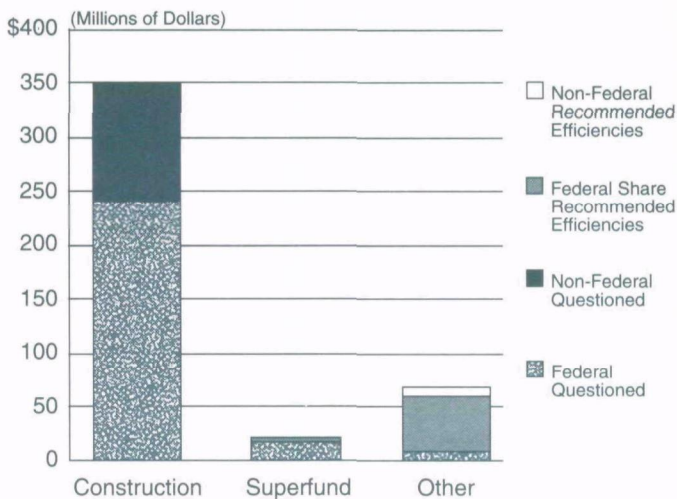
* Questioned Costs and Recommended Efficiencies are subject to change in the audit resolution process.

** Information on recoveries is provided by the EPA Financial Management Division and is unaudited.

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

Audit Activities

Questioned Costs and Recommended Efficiencies by Type of Assignment - Fiscal 1993



Examples of Significant Audits

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

Better Oversight Needed of Athens of Laboratory's Contracts and Assistance Agreements

EPA's Environmental Research Laboratory (ERL), Athens, Georgia, improperly used extramural resources by: (1) awarding repetitive sole-source Small Business Act, section 8(a) contracts to retain long-term on-site contractors, (2) avoiding the \$3 million competition threshold established for sole-source contracts under the 8(a) set-aside program, (3) having contractor personnel perform inherently governmental functions, and (4) improperly awarding cooperative agreements (CA) and interagency agreements, rather than contracts, to obtain services for the direct benefit of ERL research projects, including a \$5.2 million CA awarded to the University of Georgia (UGA) under which at least 14 UGA employees worked on-site in 1992. The Agency had planned or already initiated corrective actions, including the following. The Agency stated that it had implemented revised procedures for 8(a) procurements, including specific requirements for careful scrutiny of program requests. Also, the Agency sent special letters of instruction to all contractors and project officers addressing the subject of inherently governmental functions. In addition, the Agency indicated that it was updating guidance on distinguishing between grants and contracts, the proper use of CAs, and had strengthened its review process for IAGs.

Stronger Enforcement Needed Against Small Water Supply Systems

EPA Region 1 and the States of Vermont and New Hampshire did not take timely and effective enforcement actions against small public water supply systems which violated Safe Drinking Water Act (SDWA) requirements. The majority of the nation's population is served by large public water supply systems. Most violations of SDWA requirements are by small systems. From a sample of 29 systems, we found that the Region or the States had not issued final enforcement actions for 10 systems that had been in significant noncompliance for at least 6 months and took from 9 months to over 2 years to execute final enforcement orders to correct violations by 8 other systems. The remaining 11 systems had either returned to compliance or had a timely enforcement action taken against them. The Region was taking some corrective actions.

EPA Agrees To Include Options for Public Involvement in Pesticide Risk Reduction Decisions

To reduce the length of the special review process for potentially hazardous pesticides, the Office of Pesticide Programs (OPP) began to use alternatives more frequently, especially negotiation of risk reductions with registrants. However, the opportunity for public involvement, emphasized in the special review process, was lessened since OPP did not develop guidelines to ensure it. The Agency agreed to develop guidelines for negotiating risk reduction actions with the registrants, including options for public participation.

EPA Needs More Reliable Information on the Production of Ozone-Depleting Chemicals

To comply with the Clean Air Act and the Montreal Protocol, an international agreement to protect the ozone layer, EPA was required to reduce the amount of carbon tetrachloride produced in the United States. The Montreal Protocol also restricted the trading of chlorofluorocarbons (CFC) production allowances and the exporting of ozone-depleting chemicals. Based on inadequate information concerning producers' 1989 production, EPA established flawed baseline allowances that were used in 1991 and 1992 to measure reductions in the production of carbon tetrachloride. Also, EPA did not document its reviews of international trades of CFC production allowances or have a system to monitor exports of ozone-depleting chemicals. The Agency agreed to correct the problems.

EPA's Involvement in the Sale of Quality Assurance Materials May Conflict with Its Regulatory Role

In 1991, the Environmental Monitoring Systems Laboratory in Cincinnati, Ohio, (EMSL-Cin) entered into Cooperative Research and Development Agreements (CRADA) with five companies to develop, manufacture, and sell "EPA Certified" quality assurance (QA) materials. Laboratories use these materials to calibrate and test equipment that analyzes samples for hazardous chemicals in the environment. EMSL-Cin would receive a percentage of the companies' proceeds from the sales of these materials. This created conditions for a Government-controlled market and could compromise EPA's ability to administer fair and equitable regulations. The Agency proposed several actions which it would take to determine whether CRADAs are the best way to continue the program.

More Improvements Needed in Accounting Systems and Controls

We found key weaknesses in EPA's accounting systems and controls which affected the reliability of the Agency's fiscal 1992 financial statements. For example, the Superfund Trust Fund financial records had to be adjusted to

decrease assets by \$57.5 million, decrease liabilities by \$499.3 million, and increase equity by \$441.8 million. In addition, EPA made unsupported adjustments totaling \$181.3 million and \$21.2 million, respectively, to the Federal Insecticide, Fungicide, and Rodenticide Act and Tolerance Fund general ledgers. We disclaimed opinions on the statements for the Superfund Trust Fund and the Pesticides Revolving Funds and qualified or disclaimed our opinions on statements of the Leaking Underground Storage Tank Trust Fund and the Asbestos Loan Program. The Agency was taking corrective actions.

Nearly \$104 Million of Questioned Costs Claimed for New York City Projects Not Fully Operational

EPA awarded 17 grants totaling nearly \$1.3 billion to the New York City Department of Environmental Protection for designing and constructing the North River and Red Hook wastewater treatment facilities. We questioned \$41,632,671 of the costs claimed by the grantee as ineligible, including architectural engineering, construction, force account, and innovative and alternative technology costs and \$40,256,461 of unsupported costs. We also questioned \$22,109,417 as unnecessary or unreasonable because, among other things, one project's laboratory had not been used and its computerized control room was not operating as planned and the other project's computerized process control distribution system was not operational.

More Than \$9.2 Million of San Diego, California, Project Costs Questioned

A 2-mile long pipeline broke about 3,000 feet from shore, allowing over 170 million gallons of partially treated sewage from the City of San Diego's Point Loma wastewater treatment plant to be discharged daily in about 35 feet of water. The City claimed \$9,084,891 of ineligible costs under a grant EPA awarded to repair the outfall, including \$8,500,000 of construction, engineering, and other costs incurred because the grantee did not credit the grant with insurance proceeds for the required repairs and \$584,891 of construction costs due to a conflict of interest resulting from common ownership of the prime contractor and the subcontractor responsible for the outfall repair. We also questioned \$122,810 of unsupported construction costs.

Some Improvements Made in Timeliness and Controls Over Responsible Party (RP) Cleanups

The Agency's use of RPs to clean up Superfund sites has been hampered by numerous problems, including delays in initiating searches for RPs and negotiating settlement agreements after RPs were identified and lack of aggressive enforcement actions. Instead of pursuing stipulated penalties, EPA primarily relied on verbal negotiations and warning letters to encourage RPs' compliance. EPA had made progress in getting RPs involved in cleaning up Superfund sites and taking responsibility for their share of costs associated with the cleanups. However, there had not been a marked increase in enforcement efforts against noncomplying RPs. The Agency had initiated several corrective actions.

Improperly Classified Superfund Costs May Affect Recovery From Responsible Parties

In Regions 3, 6, and 7, \$1,601,200, or 39 percent, of reviewed costs charged to accounts for assessing the need for Federal action at sites, should have been charged to specific site accounts or general program accounts. Of that amount, \$540,800 of site specific costs were incorrectly recorded in the site assessment accounts and may not be recovered from RPs. On the other hand, including these site specific costs in the site assessment accounts could inflate the indirect cost rate, resulting in other RPs paying EPA more than their fair share of incurred

cleanup costs. Further, because Agency policy was unclear, \$1,060,400, or 26 percent of the reviewed costs, were improperly included in the site assessment accounts rather than the general program accounts. As a result, RPs could be asked to repay EPA incorrect amounts for the Agency's cleanup efforts. The Agency agreed to take corrective actions on all of our recommendations.

Cleanup of Leaking Underground Storage Tanks Still Needed in Yosemite National Park

Neither the National Park Service (NPS) nor its concessioner had cleaned up 44 leaking underground storage tank (LUST) sites in Yosemite National Park, California. Many of the sites were discovered more than 7 years ago. The NPS's concessioner was responsible for 26 sites, including 12 sites which affected groundwater. The concessioner had not met established time frames for cleaning up the high-priority sites. Yet, neither Region 9, State Boards, or counties responsible for oversight had put the concessioner under an enforcement order. In response to our December 2, 1992, report, a State regional board issued a cleanup-and-abatement order to the concessioner. However, the concessioner had not initiated remedial action at all groundwater contaminated sites by September 30, 1993, when its concessioner ownership contract expired. Also, NPS had missed deadlines established by the regional board for cleaning up 18 LUST sites, sometimes by over 1 year. The Region stated that although work had not been completed in a timely manner in the past, cleanup was now progressing according to negotiated timetables.

Report Resolution

During fiscal 1993, the Office of Inspector General issued 1,572 reports and closed 487. Of the 331 reports in the follow-up system at year end, 100 reports remained for which no management decision had been made within 6 months of issuance.

For the reports closed, \$78.2 million of questioned costs were disallowed for recovery, and \$13 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 \$9.6 million in cash collections and \$33.5 million in offsets against billings.

Major Improvements Made to Dispose of Banned Pesticides Properly

In September 1990, we reported that EPA had not ensured that holders of three banned pesticides—Ethylene Dibromide, 2,4,5-T/silvex, and dinoseb—safely controlled their stocks and complied with disposal rules. Regions and States could not fully identify and inspect all known banned pesticide storage locations. Also, emergency planners and fire officials were not aware of banned pesticide storage locations or emergency handling procedures. Our March 1993 follow-up report concluded that the Office of Prevention, Pesticides and Toxic Substances (OPPTS) had initiated or proposed actions to address the findings and recommendations in our 1990 report. Although OPPTS can now require registrants to recall banned pesticides, the Office had not completed new regulations for their storage and disposal.

Despite Improvements in SITE Demonstration Program, Additional Actions Still Needed

Our March 1990 report concluded that the Superfund Innovative Technology Evaluation (SITE) Demonstration Program was seriously hindered by problems locating sites and issuing reports on completed projects. Also, contractor cost controls were inadequate and technology developers were discouraged from participating in the program by high demonstration costs and a lack of Federal funding assistance. While EPA had made a variety of improvements to the SITE

program, some corrective actions agreed to had either not been implemented or had not corrected the noted deficiencies. Continuing problems included (1) a systematic approach to matching technologies to sites had not been developed, (2) the evaluation reports regarding SITE's innovative technologies were not consistently meeting established reporting time frames, (3) concerns over ensuring adequate contractor performance and cost control needed to be re-addressed, and (4) EPA had not relayed information to developers on how to receive assistance. The Agency agreed to implement corrective actions.

Investigative Activities

During this fiscal year, our investigative efforts resulted in 29 indictments, 22 convictions and \$20.5 million of fines and recoveries from persons or firms who defrauded the Agency.

\$11.6 Million Settlement Reached in Pennsylvania Superfund Case

Chemical Waste Management (CWM), Inc., of Oak Brook, Illinois, entered a guilty plea and paid \$11.6 million in a settlement with the Government in October 1992, regarding the Lackawanna Refuse Superfund Site in Lackawanna County, Pennsylvania. In the late 1970s, thousands of 55-gallon drums containing hazardous substances such as solvents, paint thinners, organic acids and toxic metals were illegally dumped at the site. CWM employees intentionally crushed many drums containing over one inch of material rather than placing them in 85 gallon overpacks for shipment to landfill facilities as specified in its contract with EPA. The hazardous substances leaked out and contaminated the site. This investigation was done jointly with the Defense Criminal Investigative Service, U.S. Army Criminal Investigation Command, and Defense Contract Audit Agency.

Major EPA Contractor Pleads Guilty

Booz-Allen & Hamilton, Inc., (BAH) a major Agency contractor, pleaded guilty to two counts of submitting false claims to EPA and was fined \$1 million. The OIG investigation revealed that some of the contractor's employees charged time against Agency contracts, although they did not perform work on these contracts. BAH also paid the Government \$638,000 under a civil settlement agreement.

Company and Its President Guilty of Bribery Attempt

Environmental Health, Research, and Testing, Inc., of Lexington, Kentucky, and its owner, Dr. Pritam S. Sabharwal, pleaded guilty in August 1993 to charges of offering a bribe to an EPA official to obtain privileged information on a building to be constructed for EPA at Research Triangle Park, North Carolina. The EPA employee who received the \$18,000 bribe was cooperating with the OIG. The company agreed to pay a criminal fine of \$1 million.

metaTRACE Pays \$2.4 Million Settlement

The Inspector General Division (IGD), EPA Office of General Counsel, working with the Departments of Justice, Army, and Air Force, negotiated an agreement under which TRC Companies, and its former subsidiary, metaTRACE, Inc., agreed to pay the Government \$2,425,000 to settle a potential False Claims Act case. EPA's share of the settlement was \$225,000 to cover EPA's payments for analyses that could not be relied on and for additional resampling. metaTRACE and two of its officers were previously convicted of submitting false statements to EPA. One metaTRACE employee, Carol Byington, was sentenced to 5 years in jail and fined \$20,000; and another employee, Kenneth Baughman, was sentenced to 5 years probation and fined \$10,000.

Computer Sciences Corporation Pays Over \$2.1 Million Settlement

As the result of an OIG audit and investigation, EPA's Suspension and Debarment Division, working with the IGD, negotiated a compliance agreement to resolve the suspension of the Applied Technology Division of Computer Sciences Corporation (ATD-CSC). CSC agreed to (1) pay the Government

\$1,147,856 to resolve a potential False Claims Act case; (2) pay EPA \$1,002,291 to resolve EPA contract disputes; (3) the debarment of the ATD-CSC vice president for 2 years; (4) the exclusion of other ATD-CSC employees from all government contract work for 2 years; and (5) the implementation of the CSC Proposal Integrity Program to ensure that all proposals worth more than \$25 million are reviewed by a senior CSC official for accuracy and lack of ambiguity. EPA had previously suspended ATD-CSC and three of its executives based on information developed by the OIG.

Contract Laboratory Program Investigation

Laboratory analyses under the Contract Laboratory Program (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 the environment 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.

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

■ Lab Pleads Guilty to False Claim

NET Gulf Coast, Inc. (NETGC), pleaded guilty to one count of submitting false claims to EPA. NETGC admitted that its Dallas laboratory falsified test data and submitted false claims for payment over a 3-year period. NETGC paid a \$50,000 fine and agreed to provide \$200,000 to the Federal Law Enforcement Training Center in Glynco, Georgia, for training law enforcement officers in detecting fraud.

■ Laboratory Pleads Guilty to Fraud

Environmental Industrial Research Associates, Inc. (EIRA), was sentenced in March 1993 after EIRA and three of its employees pleaded guilty to conspiracy to defraud the Government. EIRA, through the employees who pleaded guilty, manually overrode the Gas Chromatograph/Mass Spectrometer (GC/MS) instruments' calibration readings to falsely reflect that the instruments were properly calibrated. The analytical results of soil and water samples taken from Superfund sites were compromised, resulting in EIRA's submission of false data and false claims. EIRA was fined \$174,000, which was suspended, and placed on 5 years probation.

Fraud Prevention Activities

Suspension and Debarment Activities

EPA's policy is to do business only with contractors and grantees who are honest and responsible. EPA enforces this policy by suspending or debaring contractors or grantees, or individuals within those organizations, from further contracts or assistance for acting improperly, having a history of substandard work, or willfully failing to perform on EPA or other federally-funded activities. Both procurement and nonprocurement debarments or suspensions by one agency are effective in all agencies.

In fiscal 1993, 106 debarment, suspension, or compliance agreement actions were taken, including the following:

- EPA debarred Cavour Yeh and EMtec Engineering, Inc. (EMtec), his affiliate, from participating in any Federal assistance, loan, and benefit programs for 2 years, based on Mr. Yeh's conviction for mail fraud and making false statements. Mr. Yeh had submitted fraudulent time sheets under several federally-funded research projects conducted at the University of California at Los Angeles.
- EPA debarred the National Award Center (NAC), also known as Sante Enterprises Inc. (SEI), for 3 years after the criminal convictions of Douglas Raymond Cox and Saul Galindo, two of the Directors of the Center, and numerous other employees. In a telemarketing scheme to sell water purifiers, NAC/SEI falsely represented that EPA approved the purifiers and that EPA was sponsoring a bill in the House of Representatives to require all households to have a water filtration system.
- EPA suspended Caribe General Constructors, Inc. (Caribe); Osvaldo J. Ortiz, its president; and Jose M. Bonnin, its vice president for operations. An OIG investigation indicated that Caribe had submitted false claims to EPA in connection with the construction of an EPA-funded sanitary sewer system in Ponce, Puerto Rico. Subsequently, Caribe paid EPA \$75,000, twice the amount of the alleged fraud, and agreed to strong compliance measures.
- EPA suspended the Applied Technology Division of Computer Sciences Corporation (ATD-CSC), along with several key officials. CSC used false and misleading statements regarding employee qualifications in its proposal for the Technical and Operational Support Services contract. Under a compliance agreement to resolve the suspension, CSC agreed to (1) pay the Government \$1,147,856 to resolve a potential False Claims Act case, (2) pay EPA \$1,002,291 to resolve EPA contract disputes, (3) the debarment of the ATD-CSC vice president and the exclusion of other ATD-CSC employees from all government contract work for 2 years, and (4) the implementation of a proposal integrity program.

Personnel Security Program

The Personnel Security Program is one of the Agency's first lines of defense against fraud, using background investigations to review the integrity of EPA employees and contractors. During fiscal 1993, 840 investigations were reviewed.

Hotline Activities

The OIG Hotline Center opened 82 new cases and completed and closed 74 cases during fiscal 1993. Of the 74 cases closed, 14 resulted in environmental, administrative, or prosecutive action. We also referred 7,778 callers 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 company was fraudulently violating vehicle emission and safety laws. A review of the complaint disclosed that the company had tampered with emission control equipment. As a result, a notice of violation was issued to the company for 11 tampering violations and the company was fined \$16,500.
- A complainant alleged that an inspector for a State agency used undue influence to secure a subcontract on an EPA-funded project for a company in which the inspector had a financial interest. In addition, the complainant stated that the inspector falsified records so that the company could obtain funds in excess of the contract price. A review of the complaint disclosed violations which resulted in the State taking action against three individuals. The inspector resigned rather than be terminated, another State official was suspended without pay for 8 weeks, and a third State official pleaded guilty to a misdemeanor and was suspended without pay for 12 weeks.
- A complainant alleged that an employee inflated two local travel claims and received payment. A review of the complaint disclosed that the employee had submitted 2 fraudulent local travel claims. As a result, the employee was liable under the Program Fraud Civil Remedies Act and repaid the Government more than 10 times the amount of the fraud.
- A complainant alleged a conflict of interest and abuse of travel funds by an EPA employee. A review of the complaint disclosed that a supervisor created an appearance of favoritism toward another employee, in violation of ethical requirements. The supervisor 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.

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

Divisional Inspectors General

Region	Subject	Name	Telephone
Headquarters	Audit (Headquarters Audit Division)	Edward Gekosky	(703) 308-8222
	Audit (Financial Audit Division)	Melissa Heist	(202) 260-1479
	Investigations (Washington Field Division)	Francis C. Kiley	(703) 308-8282
	Investigations (Procurement Fraud Division)	Emmett Dashiell	(703) 308-8813
1 & 2	Audit	Paul McKechnie	(617) 565-3160
	Investigations	Robert M. Byrnes	(212) 264-0399
3	Audit	Paul R. Gandolfo	(215) 597-0497
	Investigations	Martin Squitieri	(215) 597-9421
4 & 6	Audit	Mary Boyer	(404) 347-3623
	Investigations	Vacant	(404) 347-2398
5	Audit	Anthony C. Carrollo	(312) 353-2486
5, 7 & 8	Investigations	Allen Fallin	(312) 353-2507
7 & 8	Audit	Nikki Tinsley	(913) 551-7824
9 & 10	Audit	Truman R. Beeler	(415) 744-2445
	Investigations	H. Brooks Griffin	(415) 744-2465

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(Photo by Kathy Thompson,
EPA/OIG, Sacramento, CA)