



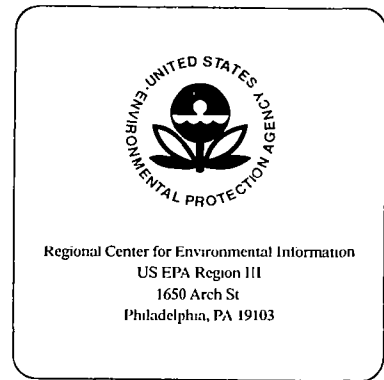
Office of Inspector General

Financial Audit Report

Assistance Agreements Awarded to the Center for Chesapeake Communities

Report Number 2001-1-00101

February 13, 2001



Regional Center for Environmental Information
US EPA Region III
1650 Arch St
Philadelphia, PA 19103

Region Covered:

Region III

Program Office Involved:

**Office of the
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February 13, 2001

MEMORANDUM

SUBJECT: Final Financial Audit Report of Assistance Agreements
Awarded to the Center for Chesapeake Communities
Report Number 2001-1-00101

FROM: Patrick J. Milligan 
Team Leader
Mid-Atlantic Division (3AI00)

TO: Thomas C. Voltaggio, Acting
Region III Administrator (3RA00)

Between September 1997 and May 1998, EPA Region III awarded the Center for Chesapeake Communities (CCC) three assistance agreements totaling \$920,338. In 1998, we evaluated Region III's management of CCC's first assistance agreement as well as CCC's performance under the agreement. On March 31, 1999, we issued an audit report entitled *Center for Chesapeake Communities* which disclosed that, among other issues, CCC did not have an adequate financial accounting system. In that prior report, we recommended that a financial audit be conducted at the conclusion of the project period for the grant. Attached is our financial audit report.

This report contains findings that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the findings contained in this report do not represent the final EPA position.

ACTION REQUIRED

In accordance with EPA Manual 2750, you are required to provide a final determination on the costs questioned within 180 days of the audit report date. Also, please submit an electronic copy of your response to phillips.mark@epa.gov. This will assist us in deciding whether to close this report. Should your position on

the questioned costs differ from our recommendation, we would appreciate the opportunity to discuss Region III's position before the determination is issued to the CCC. Please provide us with a copy of the final determination when it is issued.

We have no objection to the further release of this report to the public. If you or your staff have any questions regarding this report, please contact me or Mark S. Phillips at (215) 814-5800.

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PURPOSE

This financial audit was performed because our earlier performance audit, *Center for Chesapeake Communities (E6DEP8-03-0014-9100117)*, dated March 31, 1999, cited deficiencies with CCC's financial accounting system. One of our recommendations in that report was that a financial audit be conducted of CCC when it concluded the grant work. In particular, the purpose of this financial audit was to determine whether the costs claimed by CCC under three EPA assistance agreements were allowable, allocable, and reasonable.

BACKGROUND

CCC is a nonprofit organization formed to provide technical assistance for local governments interested in Chesapeake Bay restoration and protection activities. The EPA Region III Chesapeake Bay Program awarded the CCC three assistance agreements intended to improve the Chesapeake Bay:

Agreement	Description	Amount	Project Period
CB993675-01	Base	\$461,233	09/08/97 - 06/30/99
X-993743-01	Small Watershed	\$391,105	04/01/98 - 01/15/00
SD-993796-01	Sustainable Development	\$ 68,000	05/15/98 - 05/15/99

Although the three assistance agreements were for projects relating to the Chesapeake Bay, each award was for a distinct project and, as a result, CCC was required to account for its costs separately for each award. Below is a brief description of what EPA required CCC to do under each assistance agreement.

Base

The Base agreement was to support the start-up of the CCC, and complete various projects, such as enhancing implementation efforts for reducing nutrients in the Chesapeake Bay, and supporting toxic reduction pollution prevention goals. Part of CCC's work also included providing staff support for the Local Government Advisory Committee (LGAC). LGAC's primary mission was to develop and implement a strategy for local government participation in the Chesapeake Bay Program.

Small Watershed

EPA's Small Watershed Grants Program provided funding in amounts up to \$40,000 to 16 local governments to implement watershed protection and

restoration activities that were supportive of Region III's Chesapeake Bay Program goals.

CCC received \$60,000 to manage the 16 grants awarded to local governments. CCC was required to track applications, assure that the recipients properly allocated and accounted for the grant money, and ensure that the recipients successfully completed their project. When a recipient completed the work, it was required to submit a report to CCC that summarized the project, included lessons learned, and a feasibility report for conducting a similar project elsewhere.

Sustainable Development

The grant required CCC to prepare innovative, sustainable, site development plans to be designed for a specific parcel of land in the Chesapeake Bay Watershed. As part of this project, the CCC was required to:

- Demonstrate that a carefully designed alternative development plan would be profitable and marketable to the public while protecting the local environment and the Chesapeake Bay.
- Ensure the plan offered fiscal and social benefits to the local community.
- Organize a local government sustainable development summit to disseminate the positive results from the plans to private interests, such as bankers, developers, and local government decision-makers.
- Ensure that the summit focused on the benefits as well as the barriers of sustainable development for local communities.

SCOPE AND METHODOLOGY

We conducted a financial audit of CCC's final costs incurred for all three assistance agreements. The scope of our work was limited to financial activities conducted by CCC under the grants. We performed our audit in accordance with the *Government Auditing Standards* (1994 Revision) for financial audits issued by the Comptroller General. The audit included tests of the accounting records and other auditing procedures we considered necessary. Other than the issues discussed in this report, no other significant issues came to our attention that warranted expanding the scope of our audit.

Our review of CCC's internal controls was related to costs incurred under the grants. It was limited to assuring compliance with federal criteria and with CCC's

policies and procedures. Because of the inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. Except for the issues discussed in this report, nothing came to our attention that would cause us to believe that CCC's procedures were not adequate for our purposes.

We reviewed EPA's policies and procedures for administering grants and the requirements specified in the assistance agreements. We used the Code of Federal Regulations (CFR) Part 30 and the Office of Management and Budget (OMB) Circular A-122 as criteria for conducting this audit. We also interviewed officials from Region III, CCC's Executive Director, and CCC's bookkeeper.

Our audit began on March 13, 2000 and ended on August 4, 2000. We conducted our audit at Region III and at CCC's office in Annapolis, MD. Early in the audit, we found that CCC's accounting and record keeping system was not in compliance with federal regulations. Specifically, CCC did not account for the three awards separately and the supporting documentation for costs incurred was filed in a manner not conducive to an audit. Because of these deficiencies, we were unable to complete our audit at that time. On May 31, 2000, we sent CCC a letter describing the deficiencies and what corrective action was necessary. We allowed CCC one month to make the required changes. We returned to CCC's office at the end of July and found that the grantee had reorganized its accounting records and accounted for costs by grant agreement. CCC provided revised financial statements reflecting the adjustments they made to their accounting records. We then conducted an audit of these revised records.

We reviewed records maintained by Region III and CCC. These records included the assistance agreements, work plans, contracts, correspondence, and related files. We reviewed the costs claimed under the agreements to determine the reasonableness, allowability, and allocability of CCC's expenditures. For each cost claimed, we reviewed source documentation such as invoices, receipts, canceled checks, travel reports, bank statements, and time sheets. We also reviewed CCC's compliance with the program and financial reporting requirements of the grant.

We issued the draft report on October 26, 2000. Region III did not respond to the draft report but indicated it would make a determination on questioned costs based on the final report. The CCC responded to the draft report on December 11, 2000. We included all of CCC's response as Appendix 1 to this report. On February 12, 2001 we conducted an exit conference with CCC.

RESULTS OF REVIEW

Costs Questioned

We determined that of the \$996,146 in costs incurred by CCC under three separate agreements, \$50,817 of those costs were ineligible and \$130,434 were unsupported. Thus, \$814,895 of the costs incurred were considered acceptable. For each of the three grants, we analyzed the money EPA provided to CCC against the costs incurred that we accepted. In total, we concluded that a balance of \$120,093 (\$88,120 plus \$31,973) was due EPA from CCC. The results of our financial audit are summarized below and presented in detail in Exhibits A, B, and C.

Base Agreement (Grant CB993675-01)				
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	Incurred	Questioned		Accepted
		Ineligible	Unsupported	
Total Costs	\$508,687	\$10,433	\$125,141	\$373,113
Total Payments				461,233
Balance Due EPA				\$88,120

Small Watershed Agreement (Grant X-993743-01)				
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	Incurred	Questioned		Accepted
		Ineligible	Unsupported	
Total Costs	\$361,651	\$701	\$1,818	\$359,132
Total Payments				391,105
Balance Due EPA				\$31,973

Sustainable Development Agreement (Grant SD-993796-01)				
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	Incurred	Questioned		Accepted
		Ineligible	Unsupported	
Total Costs	\$125,808	\$39,683	\$3,475	\$82,650
Total Payments				68,000
Amount CCC Overspent				\$14,650
Balance Due EPA				\$0

Other Matters

CCC Owes Vendors

As of January 2000, CCC received a total of \$920,338 from EPA for the three awards. However, the CCC still owed \$53,485 to various organizations and contractors even though it had expended all of the EPA funds it had received.

Single Audit Not Completed

OMB Circular A-133 requires grantees to have an independent Single Audit completed for each year that they expend \$300,000 or more of federal monies. CCC was required to have an audit completed for 1998 because in that year it expended approximately \$700,000 of the \$920,338 awarded by Region III. The fieldwork for the 1998 Single Audit was conducted, but a report was not issued, even though it was due September 30, 1999. The Executive Director for CCC said that the audit firm hired by the CCC had not issued a report because it is waiting for the results of this review. We request the Region forward a copy of CCC's Single Audit to us when it is completed.

RECOMMENDATION

We recommend that the Region III Administrator adjust the allowable costs in accordance with our determination. In particular, CCC should repay EPA \$88,120 of the Base grant and \$31,973 of the Small Watershed grant, for a total of \$120,093.

CCC RESPONSE AND OIG EVALUATION

CCC generally disagreed with the draft report and maintained that all costs incurred should be accepted. We disagree with CCC's response and still question nearly all of the costs we questioned in the draft report. CCC also provided some documentation subsequent to the draft report and based on that documentation we made minor alternations to our report.

We summarized CCC's overall comments below, followed by our evaluation of the response. CCC's specific comments to individual notes are included after each note, along with our evaluation.

CCC Response

CCC noted that the present draft does not reference the process that ensued after the first OIG Report. In the first report, many issues were raised and after following the prescribed agency procedures they were resolved. CCC raised this

issue because a number of significant issues contained in this report are identical to the issues raised in the previous performance audit. Since these issues have already been addressed, CCC believes it both inappropriate and unreasonable to reopen them, and make adverse findings and recommendations which have the effect of requiring additional time and expense to address again and recreate the same controversies.

CCC replied that it was unable to determine what combination of numerous expenditures cited in the report were questioned and would be pleased to address each expenditure as appropriate. CCC also stated that during the OIG's on-site visits, a question was raised concerning specific checks and that the grantee has answered nearly everyone of these questions by the records provided to the OIG.

OIG Evaluation

Issues addressed in the earlier audit were within the scope of a performance audit. During that audit, we evaluated the adequacy of Region III's and CCC's performance under the grant. Specifically, whether CCC complied with federal regulations related to areas such as: justifying noncompetitive cooperative agreements, proper use of cooperative agreements, and conflict of interest.

This report is a financial audit and did not again address the performance issues identified in the first OIG audit. However, there is a direct correlation between the performance issues and many of the costs we questioned. As a result, many of the performance issues that affected agency dollars were not resolved during the performance audit. These issues can only be resolved after the monetary aspects of the issues are corrected. As a result, if poor grantee performance resulted in a misuse of grant funds, the corresponding costs were questioned as part of this financial audit.

We disagree with CCC when it responds that it does not know which specific costs we are questioning or does not understand why the costs are questioned. During our records review at CCC's office, we explained to the Executive Director of CCC why the costs were ineligible or unsupported. For each of the costs we questioned, we explained either why the cost could not be charged to the EPA grants or, when appropriate, the type of supporting documentation that was needed in order for the costs to be accepted. CCC was afforded more than sufficient opportunity to provide supporting documentation for costs that were questioned. Moreover, our draft report provided much detail about the costs.

**Analysis of Expenditures to Verify Allowability
Under the Base Agreement
(Grant CB993675-01, Awarded to CCC for the Period
September 8, 1997 to June 30, 1999)**

AUDITOR'S OPINION

<u>Costs Category</u>	<u>Costs Incurred</u>	<u>Costs Questioned</u>		<u>Costs Accepted</u>	<u>Note</u>
		<u>Ineligible</u>	<u>Unsupported</u>		
Personnel	\$176,018	\$ 0	\$40,600	\$135,418	1
Contractual	34,441	0	0	34,441	
LGAC	185,509	0	25,268	160,241	2
Travel	8,108	277	4,051	3,780	3
Equipment	11,072	0	11,072	0	4
Supplies	9,424	63	1,925	7,436	5
Other	64,454	5,842	9,877	48,735	6
In-kind	<u>46,435</u>	<u>4,800</u>	<u>38,935</u>	<u>2,700</u>	7
Total	<u>\$535,461</u>	<u>\$10,982</u>	<u>\$131,728</u>	<u>\$392,751</u>	
Federal Share 95%	<u>\$508,687</u>	<u>\$10,433</u>	<u>\$125,141</u>	<u>\$373,113</u>	
Total Payments				<u>\$461,233</u>	
Balance Due EPA				<u>\$88,120</u>	

Note 1: Personnel

We determined \$40,600 of \$176,018 in personnel and related fringe expenditures were unsupported.

- a. Personnel and related fringe costs amounting to \$39,908 were unsupported because CCC did not maintain payrolls supported by personnel activity reports (i.e., time sheets) as required by OMB Circular A-122. Time sheets must be based on an after-the-fact determination of the actual activity of each employee. Because CCC employees did not complete time sheets from September 1997 through May 1998, we could not determine the time expended on grant-related activities. We did review the Executive Director's personal calendar, but it also did not provide adequate support.

Amount Unsupported	\$39,908
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CCC Response

During the period questioned, CCC had only one grant and one employee. The single employee did keep a calendar and no one disputes that the required work was carried out. CCC believes the insistence on records labeled time sheets is a very narrow definition of adequacy.

OIG Evaluation

Our position remains unchanged. We attempted to use the calendar as an alternative to formal time sheets, however, the information on the calendar was cryptic and incomplete. During the time period in question, the Executive Director was charging the EPA grant full time. However, because of insufficient documentation, there was no way to verify that the Executive Director worked full time on the EPA project.

- b. We found the \$692 paid to a life insurance provider as unsupported because CCC did not provide the supporting records required by 40 CFR 30.21, such as an invoice or receipt and a description of services provided.

Amount Unsupported	<u>\$692</u>
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CCC Response

The bill is the receipt. CCC believes that the payment and check is sufficient to support the expense. The same quarterly bill has been identified and paid continuously over the life of the CCC grants. CCC notes the amount identified is not identical to any particular payment in their records; thus they are unable to determine which particular check was being questioned. IG staff has copies of the CCC records. The insurance provider is unable to provide copies of bills more than two years old.

OIG Evaluation

Our position remains unchanged. Because CCC did not provide a receipt or invoice, there is no record of the grantee incurring this cost for life insurance.

Total Amount Unsupported \$40,600

Note 2: LGAC

CCC's subcontractor, Redman/Johnson Associates (Redman), received \$184,557 for LGAC project expenditures. Because Redman was awarded time-and-materials contracts, labor charges needed to be substantiated by individual daily job time cards. Between September 1997 and April 1998, Redman did not maintain daily time sheets and could not support the actual costs for hours charged. Moreover, after April 1998, when timesheets were prepared, there were some discrepancies between the total hours reported on the invoices and the related time sheets. In total, we found 716 hours on the Redman invoices, valued at \$25,268, that were not supported by time sheets.

Total Amount Unsupported \$25,268

CCC Response

CCC stated that it followed the same policies required of the previous contractor for which no time sheets were required. CCC believed that its arrangement with Redman was in the form of a fee-for-services contract, not a time-and-materials contract. Redman provided CCC time estimates in its billing to show progress and level of effort. The critical test in every case was the services or product provided.

After EPA articulated their expectations that time sheets were required, time sheets were kept and provided for all billings after April 1998. CCC strongly believes that the amount indicated as unsupported is an unreasonable insistence on detail when EPA had not required this of prior grantees.

OIG Evaluation

We did not audit the grantees mentioned by CCC, and therefore do not have an opinion on whether they complied with federal regulations. We did find, however, that CCC's subcontractor did not adequately document time charged to the EPA grant as required by federal regulations.

We disagree that the contract was a fee-for-service contract because the Redman contract states it was a Time and Materials contract. Moreover, all of the Redman invoices were prepared as time and materials invoices. Monthly invoices included the hourly labor rates multiplied by the number of hours each employee charged. These invoices indicate that the contract was administered as a time-and-materials contract.

As part of its response to the draft report, CCC provided additional Redman time sheets and we adjusted the amount of unsupported costs accordingly.

Note 3: Travel

CCC incurred a total of \$8,108 in travel expenses under the Base agreement. Of these expenditures, we determined \$277 as ineligible and \$4,051 as unsupported.

- a. Early in the project, EPA provided CCC free office space at an EPA facility. However, the CCC Director had to pay for parking while working at this facility. We considered the \$277 in parking expenses charged to this grant as ineligible because the cost was unreasonable in accordance with OMB Circular A-122. The Circular defines a cost as reasonable if it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. We considered this expenditure unreasonable because daily commuting and parking expenses are usual and customary expenses of each employee.

Total Amount Ineligible	<u>\$277</u>
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CCC Response

As part of the Director's employment contract, CCC authorized the payment of parking since this was provided free to other staff in the same office complex.

OIG Evaluation

Our position remains unchanged. The other staff referred to by CCC was EPA staff. Free parking provided to EPA staff does not entitle grantees to the same benefit. This was an inappropriate and unreasonable charge.

- b. We found \$4,051 in travel expenditures as unsupported because CCC did not provide the records required by 40 CFR 30.21, such as purpose for the travel, travel vouchers, and receipts.

Total Amount Unsupported \$4,051

CCC Response

CCC replied that it was unable to determine what combination of expenditures lead to claim that \$4,051 is unsupported. CCC also responded that its records are reasonably complete and would be pleased to address each expenditure as appropriate.

OIG Evaluation

Our position remains unchanged. During the audit, we explained each expenditure with CCC, but the grantee was unable to furnish the required support.

Note 4: Equipment

We determined the \$11,072 incurred for equipment expenditures was unsupported because CCC did not indicate which equipment costs were grant related.

Total Amount Unsupported \$11,072

CCC Response

All CCC equipment is grant related. CCC does not understand the observation that records were not clear about which equipment was grant related.

OIG Evaluation

Our position remains unchanged. We found that the \$11,072 was listed in the summary financial records as the amount of equipment charges. However, the more detailed support listed an amount greater than \$11,072. As a result, we cannot determine which records comprise the \$11,072. We asked CCC for an explanation on this issue, but none was provided.

Note 5: Supplies

CCC incurred a total of \$9,424 for supplies under the Base assistance agreement. Of these expenditures, we considered \$63 as ineligible and \$1,925 as unsupported.

- a. We considered the \$50 incurred for Christmas cards and the \$13 incurred for a Physician Home Assistant computer software package as ineligible because the costs were unreasonable in accordance with OMB Circular A-122. Also, these costs were ineligible because they were not allocable to the grant. The Circular states a cost is allocable to a grant if it benefits the award and is necessary to the overall operation of the organization. Christmas cards and the software package did not benefit the EPA grant and were not necessary for the overall operation of CCC.

Total Amount Ineligible \$63

CCC Response

CCC agrees that these items were incorrectly allocated to a Grant category and will make the correction.

OIG Evaluation

We concur with CCC's response.

- b. We determined \$825 for consultant services, \$500 for start-up costs, \$431 for reference materials, and \$169 for note cards as unsupported because CCC did not provide the supporting records required by 40 CFR 30.21. There were no invoices or receipts for these expenditures.

Total Amount Unsupported \$1,925

CCC Response

CCC included some additional documentation on these issues. The \$169 business cards were so that staff could respond to information requests without the need for more costly stationary.

OIG Evaluation

We received no additional documentation for the \$825, \$500 and \$431 items; therefore, our position remains unchanged. We did not question

the reasonableness of the business cards. We questioned their cost because there was no receipt or invoice to support the expenditure.

Note 6: Other

CCC incurred a total of \$64,454 in the "Other" category of expenses. Of these expenditures, we considered \$5,842 as ineligible and \$9,877 as unsupported.

- a. As of July 1999, CCC's staff was downsized to one person, the Executive Director. We found it unnecessary and unreasonable to continue renting office space at a cost of approximately \$1,300 per month for one person. CCC should have found more modest accommodations in an effort to conserve money. Allowing a one-month transition period for the reduction in staff, we questioned rent expenses beginning August 1999. Because this expense was allocated to all three grants, the questionable portion allocated to the Base grant was \$3,890.

Amount Ineligible	\$3,890
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CCC Response

The draft report fails to recognize that the CCC signed a three-year lease in May 1998. It is not reasonable to move to "more modest accommodations" if CCC was still obligated to pay for the present one.

The CCC allocation of these costs during the closeout period is reasonable and should be expected when such contracts are present. When CCC received the base grant there was a reasonable expectation CCC would hold it for this entire three-year period. Only the subsequent involvement of IG staff put this expectation in doubt and ultimately caused CCC to relinquish the grant.

OIG Evaluation

Our position remains unchanged. The prudent business decision would have been to terminate the lease before the three years transpired and pay a penalty for breaking the lease.

- b. For travel with his personal vehicle, the CCC Director received a mileage reimbursement of 30 cents per mile. However, the CCC Director also charged an auto allowance of \$350 per month to the grant to help finance his vehicle. OMB Circular A-122 allows for travel costs to be charged on either an actual basis or a mileage basis. We considered the Director receiving both a standard mileage reimbursement and the auto allowance as unnecessary and

unreasonable. Because this expense was allocated to the three grants, the questionable portion allocated to the Base grant was \$1,295.

Amount Ineligible	\$1,295
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CCC Response

CCC provided support describing that the expenditure for auto allowance was contained in the Executive Director's employment contract and that the mileage is considered a standard reimbursement. CCC also provided information that non-profits in the Washington Metro area frequently provide auto allowance to directors particularly when extensive use of an automobile is required. CCC believes the expenditure is reasonable and eligible.

OIG Evaluation

Our position remains unchanged. We considered the CCC Director receiving both a standard mileage reimbursement and the auto allowance as unnecessary and unreasonable.

- c. CCC incurred \$307 for fund-raising activities, \$252 for gifts to recognize Board of Directors' services, and \$98 for a Board luncheon. We considered these expenditures ineligible because they were not in accordance with OMB Circular A-122. In particular, they were unnecessary, unreasonable, and not allocable to the grant.

Amount Ineligible	\$657
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Total Amount Ineligible	<u>\$5,842</u>
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CCC Response

CCC did not conduct fund-raising activities but rather purchased reference materials on how to conduct fund-raising activities. CCC may have incorrectly allocated the expenditures for gifts and a lunch given to the board members.

OIG Evaluation

Our position regarding the \$307 expense remains unchanged. Regarding the board gifts and lunch, CCC now considers those costs ineligible and has agreed to pay those monies back to EPA, we agree with the comment.

- d. We found \$6,995 paid to an Internet Service Provider unsupported because CCC did not provide the supporting records required by 40 CFR 30.21, such as an invoice or receipt and a description of services provided.

Amount Unsupported \$6,995

CCC Response

The file that would support the cost was lost in the move. CCC was making every effort to find a copy of the contract.

OIG Evaluation

Our position remains unchanged.

- e. We determined "Other" expenditures totaling \$1,872 claimed in the grant administrative category as unsupported because CCC did not provide the supporting records required by 40 CFR 30.21. The \$1,872 consisted of:

- \$845 Travel Voucher - No receipts.
- \$740 Journal Entry - No explanation of accounting adjustment.
- \$222 Phone Charges - No invoice.
- \$ 65 Training Related - No explanation of what the training related to.

Because these expenses were allocated to all three grants, the questionable portion allocated to the Base grant was \$1,872.

Amount Unsupported \$1,872

CCC Response

Additional information has been submitted for consideration regarding the eligibility of these costs.

OIG Evaluation

Our position remains unchanged because we have not received this additional information that CCC referred to in its response.

- f. We found a \$1,010 check written to cash as unsupported because CCC did not provide the supporting records required by 40 CFR 30.21. There were cryptic handwritten notations referencing four staff members attending a conference in Ocean City, MD. However, there was no invoice or explanation of how this expense was grant-related.

Amount Unsupported \$1,010

CCC Response

CCC has not been able to locate the receipt; however, CCC has asked the vendor for a copy of the charges. CCC also submitted additional support.

OIG Evaluation

Our position remains unchanged. The additional support provided by CCC is a blank registration form with a hand written note on it. This support is not adequate.

Total Amount Unsupported \$9,877

Note 7: In-kind

Although CCC reported \$44,937 of In-kind expenditures on the Financial Status Report, the accounting records showed a total of \$46,435. We reviewed the higher amount as the In-kind expenses claimed by CCC. We considered \$4,800 ineligible and \$38,935 as unsupported.

- a. We considered \$4,800 of In-kind expenditures for EPA's donated office space as ineligible. In-kind expenditures are required so that the grantee can provide some of the cost of the project from its own resources to show a commitment toward the project. Because the office space was donated by EPA, there was no expenditure by CCC. As a result, the \$4,800 was not an eligible in-kind expenditure. The 40 CFR 30.2 defines cost sharing or matching (In-kind) as that portion of the project or program cost not borne by the Federal Government.

Total Amount Ineligible \$4,800

CCC Response

The space was provided at the behest of the Agency to facilitate the corporation's startup for a program desired by the Agency. CCC believed this was an appropriate In-kind contribution as expected by the grant.

OIG Evaluation

Our position remains unchanged because there was no expenditure by CCC. These costs were borne by the EPA.

- b. We found \$31,660 of In-kind expenditures as unsupported because CCC did not provide the supporting records required by 40 CFR 30.23. This regulation requires, among other things, that the records be verifiable and that the activities are necessary and reasonable for proper and efficient accomplishment of project objectives. CCC had documentation indicating that individuals volunteered their time at various meetings and workshops, such as: Community Environmental Reviews, Pollution Prevention Workshops, and LGAC meetings. However, we could not determine which individuals provided the services and how their services supported the grant.

Amount Unsupported \$31,660

CCC Response

It is incredulous to CCC that the IG could not assess the supporting records required by the Agency. CCC has provided a list of the meetings, attendees and modest estimates of the value of their time. The records show the meetings took place and the services were provided.

OIG Evaluation

Our position remains unchanged. The documentation provided was inadequate. We could not determine the number of individuals that provided the services and how their services supported the grant.

- c. We determined \$7,275 of In-kind expenditures for CCC board members' time spent at CCC's Corporate Board Meetings as unsupported because CCC did not provide the supporting records required by 40 CFR 30.23. The regulation required, among other things, that the records be verifiable and that the activities be necessary and reasonable for proper and efficient accomplishment of the grant.

Amount Unsupported \$7,275

CCC Response

The CCC grants described in this report constituted all the work undertaken by CCC from September 1997 to January 2000. Thus,

CCC counted the board members attendance at board meetings as appropriate In-kind contributions.

OIG Evaluation

CCC needed board minutes and an agenda that clearly showed how the board members' efforts directly supported the EPA grants.

Total Amount Unsupported \$38,935

**Analysis of Expenditures to Verify Allowability
Under the Small Watershed Agreement
(Grant X-993743-01, Awarded to CCC for the Period
April 11, 1998 to January 15, 2000)**

AUDITOR'S OPINION

<u>Costs Category</u>	<u>Costs Incurred</u>	<u>Costs Questioned</u>		<u>Costs Accepted</u>	<u>Note</u>
		<u>Ineligible</u>	<u>Unsupported</u>		
Personnel	\$ 19,633	\$ 0	\$ 0	\$ 19,633	
Communities	331,494	0	0	331,494	
Travel	2,222	0	1,167	1,055	1
Supplies	2,183	0	398	1,785	2
Other	<u>6,119</u>	<u>701</u>	<u>253</u>	<u>5,165</u>	3
Total	<u>\$361,651</u>	<u>\$701</u>	<u>\$1,818</u>	<u>\$359,132</u>	
Total Payments				<u>\$391,105</u>	
Balance Due EPA				<u>\$31,973</u>	

Note 1: Travel

We determined \$1,167 in travel expenditures were unsupported because CCC did not provide the supporting records (e.g., purpose for the travel, travel vouchers, receipts) as required by 40 CFR 30.21.

Total Amount Unsupported	<u>\$1,167</u>
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CCC Response

CCC was unable to determine which of the expenditures IG's staff identified as unsupported. CCC has provided copies of all their records and would be pleased to respond on an item by item basis.

OIG Evaluation

Our position remains unchanged. During the audit, we explained the specific documentation CCC needed, and the grantee was unable to furnish the required support.

Note 2: Supplies

We found \$398 in expenditures for supplies to be unsupported because CCC did not provide the supporting records (e.g., invoices or receipts) as required by 40 CFR 30.21.

Total Amount Unsupported	<u>\$398</u>
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CCC Response and OIG Evaluation

See Note 1 above.

Note 3: Other

CCC incurred a total of \$6,119 in the "Other" category of expenses. Of these expenditures, we considered \$701 as ineligible and \$253 as unsupported.

- a. We considered \$526 in rent expenditures as ineligible for reasons explained in Exhibit A, Note 6a.

Amount Ineligible	\$526
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- b. We considered \$175 in auto allowance expenditures as ineligible for reasons explained in Exhibit A, Note 6b.

Amount Ineligible	<u>\$175</u>
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Total Amount Ineligible	<u>\$701</u>
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- c. We determined \$253 in the “Other” expenditures as unsupported for reasons explained in Exhibit A, Note 6e.

Total Amount Unsupported	<u>\$253</u>
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**Analysis of Expenditures to Verify Allowability
Under the Sustainable Development Agreement
(Grant SD-993796-01, Awarded to CCC for the Period
May 15, 1998 to May 15, 1999)**

AUDITOR'S OPINION

<u>Costs Category</u>	<u>Costs Incurred</u>	<u>Costs Questioned</u>		<u>Costs Accepted</u>	<u>Note</u>
		<u>Ineligible</u>	<u>Unsupported</u>		
Personnel	\$ 45,077	\$ 0	\$ 0	\$45,077	
Contractual	21,756	0	0	21,756	
Travel	8,065	0	166	7,899	1
Supplies	6,545	1,148	0	5,397	2
Other	11,042	981	354	9,707	3
In-kind	59,350	47,475	2,225	9,650	4
Summit Expense	<u>58,200</u>	<u>0</u>	<u>1,599</u>	<u>56,601</u>	5
Subtotal	<u>\$210,035</u>	<u>\$49,604</u>	<u>\$4,344</u>	<u>\$156,087</u>	
Less:					
Summit Income	<u>52,775</u>	<u>0</u>	<u>0</u>	<u>52,775</u>	
Total	<u>\$157,260</u>	<u>\$49,604</u>	<u>\$4,344</u>	<u>\$103,312</u>	
Federal Share 80%	<u>\$125,808</u>	<u>\$39,683</u>	<u>\$3,475</u>	\$ <u>82,650</u>	
Total Payments				\$ <u>68,000</u>	
CCC Overspent				\$ <u>14,650</u>	
Balance Due EPA				\$ <u>0</u>	

Note 1: Travel

We determined \$166 in travel expenditures as unsupported because CCC did not provide the supporting records (e.g., travel receipts) as required by 40 CFR 30.21.

Total Amount Unsupported	<u>\$166</u>
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CCC Response

CCC was unable to determine which of the expenditures IG's staff identified as unsupported. CCC has provided copies of all their records and would be pleased to respond on an item by item basis.

OIG Evaluation

Our position remains unchanged. During the audit, we explained the specific documentation CCC needed, and the grantee was unable to furnish the required support.

Note 2: Supplies

CCC incurred a total of \$1,148 for 300 copies of James Michener's fictional novel, *Chesapeake*. These books were given to CCC workshop participants to promote interest in the Chesapeake Bay. Because this book was fictional, we considered this expenditure ineligible because it was unnecessary and unreasonable in accordance with OMB Circular A-122.

Total Amount Ineligible	<u>\$1,148</u>
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CCC Response

CCC believed the use of the book generated substantial interest in the Bay and the CCC work. CCC contends the book was more likely to be read than another factual report of Bay statistics. CCC's experience shows this assumption to be true.

OIG Evaluation

Our position remains unchanged.

Note 3: Other

CCC incurred a total of \$11,042 in the "Other" category of expenses. Of these expenditures, we considered \$981 as ineligible and \$354 as unsupported.

- a. We considered \$736 in rent expenditures as ineligible for reasons explained in Exhibit A, Note 6a.

Amount Ineligible \$736

- b. We considered \$245 in auto allowance expenditures as ineligible for reasons explained in Exhibit A, Note 6b.

Amount Ineligible \$245

Total Amount Ineligible \$981

- c. We determined \$354 in “Other” expenditures as unsupported for reasons explained in Exhibit A, Note 6e.

Total Amount Unsupported \$354

Note 4: In-kind

CCC reported a total of \$59,350 of In-kind expenditures, of which we considered \$47,475 as ineligible and \$2,225 as unsupported.

- a. CCC inflated its expenditures by erroneously claiming \$47,475 as an In-kind expense when this amount was income. We considered this erroneously claimed amount ineligible.

Total Amount Ineligible \$47,475

CCC Response

CCC reported the amount received from contributors and attendees as In-kind contributions because these funds were used to offset hotel and other costs associated with grant activities.

OIG Evaluation

We agree that CCC was entitled to use Summit Income to offset Summit Expenses. This is illustrated in Exhibit C where we accept \$52,775 of Summit Income and subtract this amount from Grant Expenses.

However, the \$47,475 discussed in this note was a portion of the \$52,775 of Summit **Income**; and was erroneously claimed as an In-kind **expense**. Therefore, our position remains unchanged.

- b. We determined \$2,225 of In-kind expenditures as unsupported because CCC did not provide the supporting records required by 40 CFR 30.23. The regulation requires, among other things, that the records be verifiable, and that the activities are necessary and reasonable for proper and efficient accomplishment of project objectives. The support indicated individuals volunteering their time at various Site Planning meetings and workshops, but we could not determine which individuals provided the services and how their services supported the grant.

Total Amount Unsupported \$2,225

CCC Response

It is incredulous to CCC that the IG could not assess the supporting records required by the Agency. CCC has provided a list of the meetings, attendees and modest estimates of the value of their time. The records show the meetings took place and the services were provided.

OIG Evaluation

Our position remains unchanged. The documentation provided was inadequate. We could not determine the number of individuals that provided the services and how their services supported the grant.

Note 5: Summit Expense

We considered several Summit expenditures totaling \$1,599 as unsupported because CCC did not provide the supporting records required by 40 CFR 30.21. The particular expenditures were for:

- | | | | | |
|----|---------------|-------|---|----------------|
| a. | Kinkos | \$948 | - | No Receipt |
| b. | Cash Advances | \$635 | - | No Explanation |
| c. | Restaurant | \$ 16 | - | No Receipt |

Total Amount Unsupported \$1,599

CCC Response

This item labeled “Kinkos” was for the Conference program delivered on site. The receipt was misplaced. Kinkos could not provide us copy since they retain records of this type for only one year.

The cash advances were funds to pay hotel personnel for setting up exhibits. No receipts were provided by these persons. CCC notes indicate the exhibits cost about \$30 each to set up; CCC thought these costs reasonable. They were not paid out of federal funds.

The item labeled “Restaurant” was a staff person’s lunch. The receipt was not found.

OIG Evaluation

Our position remains unchanged for items a, b, and c.

APPENDIX 1 - CCC RESPONSE

Center for Chesapeake Communities, Ltd.
209 West Street, Suite 201
Annapolis, MD 21401
Email: gallenbay@aol.com
Tel. (410) 267-8595
Fax. (410) 267-8597

December 11, 2000

Via E-mail

Mr. Patrick J. Milligan
Team Leader
United States Environmental Protection Agency
Office of the Inspector General
Mid-Atlantic Division
3AI00
1650 Arch Street
Philadelphia, Pennsylvania 19103-2029

RE: **Draft Report #2000-000803**

Dear Mr. Milligan:

Thank you for the opportunity to comment and provide additional information on the Draft Financial Audit Report of Financial Assistance Agreements Awarded to the Center for Chesapeake Communities.

GENERAL COMMENT ON SCOPE

We have reviewed the Draft Report in detail and will comment on each of its sections as appropriate. We note that the report references an earlier Performance Audit dated March 31, 1999, as a reference for this Report and states the purpose of this financial audit "was to determine whether the costs claimed by CCC under these Assistance Agreements were allowable, allocable, and reasonable."

We note that the present Draft does not reference the process that ensued after the first Report. In that Report many issues were raised and following the prescribed agency procedures resolved. We raised this issue because a number of significant issues contained in this report are identical to ones raised in the previous Performance Audit. Since these issues (which we will identify in our comments below) have already been raised and resolved, it seems to us both inappropriate and unreasonable to reopen them, and make adverse findings and recommendations which have the effect of requiring additional time and expense to address and recreating the same controversies.

BACKGROUND

The narrative contained in the report on our organization's purpose, and the description of the three Agreements contained on page 1 and 2 of the Draft Report are accurate.

SCOPE AND METHODOLOGY

We note the comments in the Draft that reflect "Except for the issues discussed in this report, nothing came to our attention that would cause us to believe CCC procedures were not adequate for our purposes."

IG Audit staff can attest that we have made every effort to be fully cooperative and have provided copies of all records and materials relating to our work. The observation made concerning record keeping reflects only how they were filed in our office by cost category instead of by grant. This "deficiency" was corrected and the records reorganized. Our financial statement was adjusted as requested.

RESULTS

We disagree with the results of the review of both the Base Agreement (Grant CB-993675-01) and the Small Watershed Agreement (Grant X-99374301). We also differ on the Sustainable Development Agreement and will comment below; however we note the Audit finds No Balance Due EPA on Grant SD-993796-01). We agree with this finding.

CCC VENDORS

We do have outstanding obligations which we have made substantial progress in meeting since January 2000. It can not help but be noted that our ability to pay these organizations may be heavily dependent on how this Draft Report is revised, distributed and its Recommendations resolved. The earlier report dated March 31, 1999 did substantial and sustained harm to our organization, its staff and Directors. This happened despite the fact that every issue save one was resolved satisfactorily. We strongly hope these facts will encourage reflection on the substantive comments below.

SINGLE AUDIT

IG staff can confirm a single audit was paid for and the on site review carried out in early 1999 as required. EPA's extensive review of our work and records has caused the Audit firm to withhold its report. Auditors raise the significant issue of our remaining a "going concern" in light of the response following the EPA review and our reluctant withdrawal from competition for future funding while this review continues. At present we do not have the funds to complete further audits. The one already paid for will be completed when this cycle of reviews is complete. We will provide a copy of this document when it is available to us.

ANALYSIS OF EXPENDITURES UNDER BASE AGREEMENT

ALLOWABLE COSTS

Our detailed comments on the Draft begin with item identified on page 8. We shall return to the Summary on page 7 later.

Note 1 Personnel

Note 1-a. This issue has been previously addressed in the earlier Performance Audit. Our response is on record. EPA Management and Audit Staff have reviewed these records and found them acceptable. Here are the facts.

- During the period September, 1997 through May 1998 we had only one grant and one employee. No records labeled time sheets were kept until additional employees and grants were made which required the segregation of effort by activity. The single employee did keep a calendar and no one disputes that the required work was carried out during this period.
- We strongly believe the history of previous reviews of this information, common sense and the reports provided by our payroll records showing bi-monthly calls for payments, taxes, etc. should be sufficient to document these costs. We believe the insistence on records labeled time sheets is a very narrow definition of adequacy. This \$39,908 is supported by these facts and records.

Note 1-b. Life insurance has been a paid benefit since hiring the first employee. The bill is the receipt. We believe the payment and check is sufficient to support the expense. The same quarterly bill has been identified and paid continuously over the life of our grant. We note the amount identified is not identical to any particular payment in our records; thus we were unable to determine which particular check was being questioned. IG staff have copies of our records. The insurance provider is unable to provide copies of bills more than two years old.

Note 2-LGAC

This issue has been previously addressed in the earlier Performance Audit. The response of the Contractor is on record. Copies of these materials were again provided in September, 2000. EPA Management and Audit Staff have reviewed these records and found them acceptable. Here are the facts:

During the period identified, the Center followed the same policies required of the contractor for the previous four years by the previous holder of the grant. During that period no time sheets were required. The contract was not in their view a time and materials contract but a fee for services contract. They provided time estimates in their billing to show progress and level of effort. The critical test in every case was the services or product.

The IG and Management and Audit Staff are familiar with these facts. In our first year-long contract with this vendor after EPA articulated their expectations concerning such records time sheets were required, kept and provided for all billing after April, 1998.

We strongly believe the assertion that the amount of \$26,693 is unsupported and is an unreasonable insistence on detail when such informational requirement had not been previously required by the Agency of its prior grantees and the issue has already been resolved. It should not be included in this report except perhaps as a reference that it has already been addressed.

Note 3-Travel

Note 3-a. We note that the CCC had no costs for office space during this period (September 1997 to April 1998). The CCC thus authorized the payment of parking since this was provided free to other staff in the same office complex. The actual cost of \$35 per month does not seem unreasonable and it should be noted that the employee was experiencing severe health problems during this period (which lead to heart surgery) which significantly affected his ability to walk great distances. His employment contract thus provided payment for parking.

The payments reflect these facts. We believe the payments are appropriate.

Note 3-b. Our records are reasonably complete. We are unable to determine what combination of expenditures lead to the claim that \$4,051 is unsupported. We would be pleased to address each expenditure as appropriate. We note that a question was raised concerning specific checks during the on-site audit. We believe nearly every one of these questions has been answered by the records we have provided and which remain available.

Note 4

All of our equipment is grant related. The computers, printers, copy machine, fax, and office furniture are the normal part of setting up an office to carry out any task. Copies of invoices were reviewed. We do not understand the observation that records were not clear about which equipment was grant related.

We had no equipment prior to this grant. All equipment was acquired for grant related work. Each grant provides for equipment costs. These funds were indicated in our records and the specific checks noted for each item. We believe this connection is clear; thus the costs themselves are supported.

Note 5-Supplies

Note 5-a. Christmas Cards were purchased cards and a sale item added to a software purchase for \$13.00. If these items were incorrectly allocated to a Grant category. We will make the correction. This may be a bookkeeping error in coding costs.

Note 5-b. We have included some additional documentation on these issues. The \$169 item was for business cards for staff (sample enclosed) for response to information requests without the necessity for use of more costly stationary. (Exhibit 1)

Note 6-Other

Note 6-a. It is accurate that the CCC immediately downsized its staff in July, 1999. The Draft Report fails to recognize that the CCC signed a three year lease in May, 1998. It is not reasonable to move to "more modest accommodation" if we are still obligated to pay for the present one.

Our allocation of these costs during our closeout period are reasonable and should not be unexpected when such contracts are present. The original lease was a money saving arrangement in light of rapidly changing rents in the Annapolis area. When we received the Base grant we had reasonable expectation we would hold it for this entire three year period. Only the subsequent involvement of IG Staff put this expectation in doubt and ultimately caused us to relinquish the grant.

Note 6-b. We provided documentation on this item in September, 2000 to IG staff. We point out that the expenditure for an auto allowance was contained in the Executive Director's employment contract and the mileage is considered a standard reimbursement. CCC's rate is .30 per mile. We also provided information that non-profits in the Washington Metro area frequently provide Auto Allowance to Directors particularly when extensive use of an automobile is required. We believe the expenditure is reasonable and eligible and was previously reviewed by Audit management staff.

Note 6-c. The CCC purchased reference materials from several organizations on environmental fundraising. We were expected to provide such information to local governments for their use in response to requests. In addition the EPA expected the CCC to leverage its grants to provide additional services to local governments.

We acquired these materials and posted reference to them on our Web site. We did not conduct fundraising activities; thus we believe the \$307 item appropriate to our work.

The gifts to our Board may be incorrectly allocated. Our Board served without compensation. We provided shirts and other items for identification of their affiliation when attending CCC sponsored events.

The CCC paid for a lunch provided at our Board Meeting. Directors came from throughout the Bay Watershed. We thought this was a reasonable expenditure in light of the expectation we would appreciate a viable non-profit organization. This expenditure may be incorrectly allocated.

Note 6-d. Funds were provided to a Web Designer that has gone out of business and been replaced by a Web hosting organization supported by an Internet service provider. This contract was developed very early in our existence prior to our move in May, 98. The file was lost in the move. We are making every effort to find a copy of the contract.

Note 6-e. We have reviewed these items. Such additional information as we have been able to identify is enclosed. (Exhibit 2, sent separately)

Note 6-f. This item refers to a check written for staff to participate in the Maryland Municipal League Summer Conference in Ocean City. The CCC was expected to participate in municipal meetings in Pennsylvania, Virginia and Maryland. In the case of Maryland, Staff had just come on Board; thus only on site registration was possible. We have not been able to locate the receipt; however the Municipal League has verified the cost been asked for a copy of the charges. This information is enclosed. (Exhibit 3)

Note 6-g. We are confused by the comment that membership in the Washington Council of Agencies is unsupported. Both the invoice, check and description of the organization are part of our records. In addition our health insurance was provided through this organization. As a small non-profit we joined this organization to be considered part of a pool for health coverage. Membership is a prerequisite to getting these benefits. The cost savings to the grant are obvious since our health costs were reduced by an estimated \$500 per month. We believe this cost is clearly supported.

Note 7-In-kind.

We respectfully disagree with all the findings in this Note. Our accountant used usual and standard practice to provide us with the number contained in our reports.

We understand the intent of In-kind support to be that the grantee acquire support in the form of funds or effort from any appropriate source to compliment the funds in the grants. This we have done and done consistently.

a. The estimated value of the donated office space is a modest evaluation of the cost to have acquired alternative space in the Annapolis area. Since we were provided space for a start up organization for eight months we estimate the saving to the grant to be \$4,800. We believe this is an appropriate in-kind contributions as expected by our grant. Local EPA staff frequently described the donated use of space as a contribution to our work. The records reflect this encouragement and our belief it was appropriate. The space was provided at the behest of the Agency to facilitate the corporation's startup for a program desired by the Agency.

b. It is incredulous to us that the IG could not asses the supporting records required by the Agency. We provided a list of the meetings, attendees and modest estimates of the value of their time. The records shows the meetings took place and the services were provided. The Draft Report notes we had documents concerning these

meetings. The finding appears to request identifications of each individual by name. We believe such request is unreasonable. However, in nearly every case even this expectation was met. The assertion that IG staff were unable to see how attendance at the various workshop and meetings we sponsored was connected to the grant is incredulous since these were all required by the grant.

A list of these activities is contained in the grant award, reflected in our work reports and in our financial expenditures. IG staff have all these documents. We strongly believe these in-kind contributions are supported and consistent with the services required by the grant.

We note that this is a contribution, not an expenditure of grant funds. Hundreds of people participated in our work. Many of these activities were attended by EPA staff. All of the required activities were completed satisfactorily aided by the participation of those whose attendance is asserted as part of our reports.

c. The EPA grants described in this report constituted all the work undertaken by the CCC during the period September, 1997 to January, 2000. Our Board provided oversight for this work and frequently participated as representatives of their communities, organizations or profession. They were never compensated for this work. We counted their attendance at Board and other meetings as appropriate in-kind contributions. We were told by our accountant that this is a usual and customary practice in accounting for federal grants. Their involvement is reasonable for the proper operation of a non-profit which is a requirement for the grantee by the EPA's Rules. Note, these are contributions of time not expenditure of grant funds. The actual costs associated with these meetings is only a very small percentage of the value of the time contributed by these individuals.

The records provided to the IG's reviewers, contrary to their findings, demonstrate that the Corporation more than met its obligation to provide in-kind services to support the required in-kind match for the grant funds. The records provided to the IG clearly and reasonably demonstrate the value of the services, and IG's determination that the recognition of that value is unsupported by the records is erroneous.

Response to Analysis of Expenditures under the Small Water Shed Agreement

Note 1 Travel

We were unable to determine which of the travel expenditures IG's staff identified as unsupported. We have provided copies of all our records and would be pleased to respond on an item by item basis.

Note 2 Supplies

See above comment under response to Note 1. We believe all our costs in this area are adequately supported.

Note 3

Note 3-a. See our earlier comments concerning rent. This was a reasonable and unavoidable expense in light of our rental contract. It seems to us entirely appropriate that a portion of these costs be charged to this grant as part of the expenses CCC is entitled to under the grant.

Note 3-b. See our earlier comment on auto expenses in the base grant and note that again it seems appropriate to allocate these costs to this grant in light of the enormous cost to CCC to visit many of the grantees in the Bay Watershed program.

Note 3-c. We are unable to determine what this item refers to and thus cannot offer a constructive response.

Analysis of Expenditures Under the Sustainable Development Agreement

The Summary document is incomprehensible to us. It would seem to suggest we had costs totaling nearly a quarter of a million dollars (\$210,035) for a project for which we received \$68,000 from EPA. The analysis suggests we overspent by \$14,650 and no balance is due EPA. We concur we do not owe EPA any funds on this or any other of these Agreements.

The report seems to us to consistently understate the funds acquired from other than EPA sources as eligible in-kind match. Clearly we have received different advice from our accountant than that used by the IG Staff.

In addition we note for the record that this grant required activities linked to those required by the Base grant. It seems unreasonable to say we overspent this grant and under spent the other when our records show these costs were shared by both projects.

Comments on Notes on Page 17 of Draft

Note 1 Travel

We cannot respond since we are unsure what expenditure is not supported.

Note 2

We believe the use of the Book identified in the Draft Report generated substantial interest in the Bay and our work. In fact we submit it was more likely to be read and kept than another factual report of the latest statistics on the Bay. These materials were also available. Our experience shows our assumption to be true. The Auditor's judgement should not trump our actual program experience.

Note 3-Other

- a. Rent, see our earlier comment
- b. Auto, see our earlier comment and submissions
- c. We are unable to respond since no particular item is identified.

Note on In-kind

Item A. We reported the amount received from contributors, and attendees as in-kind contributions because these funds were used to offset hotel and other costs associated with grant activities. The advice we received indicated this was an appropriate match to our federal funds since the expenses for the project could not have been met without these funds.

Item B. See our earlier comment concerning our reporting of the contribution of volunteers to this project. Since the meetings took place, as the records show, clearly the criteria for adequacy is different that we expected. It is also important to note no federal funds were involved in these “expenditures.”

Note 5-Summit Expense

Item a-Kinko’s. This item is for the Conference program delivered on site. The receipt was misplaced. Kinko’s could not provide us a copy since they retain records of this type for only one year.

Item b. This item provided funds to pay hotel personnel for setting up exhibits and the display area. No receipts were provided by these persons. Our notes indicate the exhibits cost about \$30 each to set up. We thought these costs reasonable. They we not paid out of federal funds.

Item c. This was a staff person’s lunch. The receipt was not found.

Closing Comments

The process that has lead to this report has been lengthy, demanding and devastating to our organization and it is still not complete. Faced with a similar situation a new organization may well have closed. Ours nearly has. However because I believe that all our transactions were handled with integrity, and were consistent with the purposes for which the EPA provided the funds, we have sought to honor our obligations to our contractors and reestablish a revenue stream.

We cannot agree that we owe the Agency any refunds. Nearly 80% of the requested refund amount on the Base grant is attributed to costs already addressed and resolved in an earlier review process. The assertions concerning equipment seems to us totally out of context since the grant clearly allows equipment to be purchased, and all of it is accounted for in our receipts and was present in our office when visited by IG staff

twice and Management and Audit Staff. Rather than under spent our record show we over spent this grant in an effort to carry out the work successfully. How else could you explain the fact that we are still paying off our vendors as noted on page 5 of the draft?

Accountants and others knowledgeable about government programs whom we have consulted note the Center has achieved remarkable success in a very short period of time, putting into place systems, projects and policies while under close scrutiny. It seems to us unreasonable that the report fails to note we have had many successes, no complaints from our grantees and low overhead.

Perhaps the most fundamental observation missing from the report is the close relationship of activities to be carried out under each grant. In one case, the "Summit Toward a Sustainable Chesapeake," the activity was to be carried out with funds from two grants. It seems to us unreasonable to assert we overspent one while under spent the other. Any organization especially a new one might encounter difficulty successfully separating costs for such overlapping grants. We think these differences balance out and would have been handled in this way had we the benefit of hindsight present in the Draft Report. Over a period of three years, these issues would have been thoroughly discussed and resolved by EPA Grants Management Staff. The intervention of the IG froze in place a dynamic process and this process had not yet had time to take place.

We will be fully cooperative with the continuing resolution of the issues identified in this report. Our most significant concern is that its findings will become a burden we cannot shoulder and remain viable as an organization. We trust the Agency will continue to work with us to assure our assertions are heard and a full and fair resolution is made in the weeks ahead.

Respectfully submitted,


Gary Allen
Executive Director

Exhibit 1

#1

GARY G. ALLEN
CENTER FOR CHESAPEAKE COMMUNITIES
209 WEST STREET, SUITE 201
ANNAPOLIS, MD 21401 410-267-8585

sample

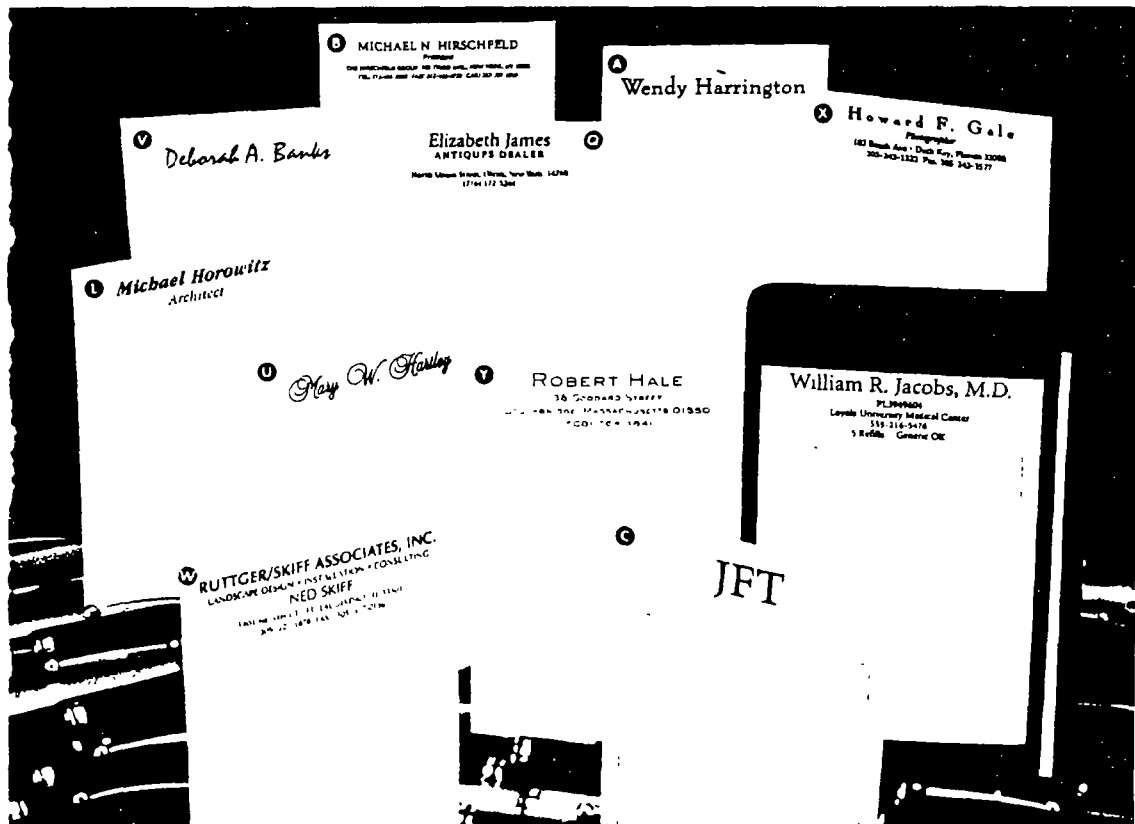
Exhibit 1(Per Response)

THE NEW GRAY-BLUE CARD, PLUS YOUR NAME IN COLOR

The custom cards for our Pocket Briefcases are more useful and nicer than standard 3 by 5 cards, which are either blank or have lines running the wrong way, and are made of ordinary paper. We print ours in three efficient styles—ruled, window, and grid—on the highest-grade card stock.

Choose bright white or our brand-new, gray-blue stock. Both lie absolutely flat (unlike inexpensive cards, which often curl slightly) and are a delight to write on. The blue is light enough to make a clean photocopy.

We offer these Pocket Briefcase Cards plain or personalized, and in a choice of ink colors. The personalized cards can serve as mini-stationery for jotting a note when you send people articles or reports. They are also business cards you can write on. It's very useful (and more impressive) to hand someone your card when you've written something on it. In one card you get the best tool for taking your own notes and sending notes to others, as well as a power business card.



- 1,000 Nonpersonalized Cards, White (rl, wc, or gd) K-ADS1100 \$29.95
- 1,000 Nonpersonalized Cards, Gray-Blue (rl, wc, or gd) K-ADS1300 \$29.95
- 150-Card Sampler (25 of each style) K-ADS1305 \$8.95
- 1,000 Personalized Cards, White (rl, wc, or gd) K-ADS1090 \$69.95
- 1,000 Personalized Cards, Gray-Blue (rl, wc, or gd) K-ADS1295 \$69.95
- Set of 50 Envelopes for 3 by 5 Cards (white only) K-ADS190 \$6.95

How to order: First select your paper stock and style. Choose gray-blue or white cards in either the ruled (rl), window (wc), or grid (gd) style. Then choose your ink color—black, red, blue, green, or burgundy—and tell us what you want printed on top. You can choose any card you see on this page as a guide. Quantity discounts begin with three sets.

You can customize any of our standard styles (shown above) for an additional \$20. Also, we will be glad to reproduce your logo or other image on personalized cards for a one-time added charge of \$59. Simply send us your camera-ready art. We can ship personalized cards just 1 week following proof approval.

800-544-0880 24 Hours Levenger.com

9

Exhibit 3

Individual Registration Form MML Annual Convention — June 29, 30 & July 1, 1998

Please print or type; use a separate form for each person.

Name _____ Nick Name _____
 Spouse/Companion Name _____ Nick Name _____
 Title _____
 Municipality, Agency or Company _____
 Address _____
 City _____ State _____ Zip _____ Phone (____) _____
☐ First time MML convention attendee ☐ Number for children's party Tuesday? _____ ☐ Golf Information

Pre-Registration Fees	Before April 11	April 12- June 4	Amount
3 Day Registration Fee			
Municipal Official	\$ 225	\$ 270 43	\$ 810 ✓
Other	\$ 295	\$ 355	\$ _____
1 Day Registration Fee — Circle One: Mon. Tues. Wed			
Municipal Official	\$ 175	\$ 210	\$ _____
Other	\$ 230	\$ 275	\$ _____
Social Functions			
Awards Dinner—Tuesday, June 24 _____ each at	\$ 31	\$ 36	\$ _____
Seafood Buffet—Wednesday, June 25			
Adult _____ each at	\$ 27	\$ 32	\$ _____
Children (age 6-10) _____ each at	\$ 12	\$ 15	\$ _____
Jolly Roger Pass—Wed, June 25 _____ each at		\$ 12	\$ 12 \$
TOTAL			\$ _____

Payment must accompany registration form!

Method of Payment:	<input type="checkbox"/> Check enclosed payable to Maryland Municipal League	<input type="checkbox"/> MasterCard/VISA
Expiration Date	_____	Card Number _____
Print Name as it Appears on Card _____		
Card Holder's Signature _____		



If you have special needs, including dietary, please attach a separate sheet describing your requirements

On-Site Registration
 All registrants after June 4 must register on site at higher fees. No meal tickets will be sold on site.

3-Day Member... \$310
 3 Day Non Member... 405
 1 Day Member... 240
 1-Day Non-Member... 315

Return to the Maryland Municipal League, 1212 West Street, Annapolis, MD 21401. (Credit card

check was for 3 Registrations = \$810 + 200 for Staff food & lodging

APPENDIX 2 - DISTRIBUTION

HEADQUARTERS

Office of Inspector General (2410)
Associate Administrator for Congressional and Intergovernmental
Relations (1301A)
Associate Administrator for Communications, Education, and Media
Relations (1101A)
Director, Grants Administration Division (3903R)
Comptroller (2731A)
Agency Audit Follow up Coordinator (2724A)

REGIONAL OFFICE

Assistant Regional Administrator, Office of Policy and Management (3PM00)
Director, Chesapeake Bay Program Office (3CB00)
Director, Office of Communications and Government Relations (3CG00)
Chief, Grants & Audit Management Branch (3PM70)
Region III Library (3PM50)

OTHER

Center for Chesapeake Communities