



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Quick Reaction Report

# EPA Should Revise its Grant Accrual Methodology to Address Impact of Recovery Act Funds

Report No. 09-X-0217

August 19, 2009



**Report Contributors:**

Paul Curtis  
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**Abbreviations**

ARRA	American Recovery and Reinvestment Act
EPA	U.S. Environmental Protection Agency
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) has concerns with the impact the American Recovery and Reinvestment Act (ARRA) of 2009 will have on EPA's grant accrual calculation for the Fiscal Year 2009 financial statements. We are alerting EPA management of our concerns.

## Background

In February 2009, EPA was provided with \$7.2 billion under the ARRA for projects and programs administered by EPA. The funds were to be awarded to grantees expeditiously. Grant accruals in the financial statements represent grantee costs incurred but not billed.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2009/20090819-09-X-0217.pdf](http://www.epa.gov/oig/reports/2009/20090819-09-X-0217.pdf)

## ***EPA Should Revise its Grant Accrual Methodology to Address Impact of Recovery Act Funds***

### What We Found

EPA's grant accruals for the Fiscal Year 2009 financial statements may not include adjustments for additional funds received under the ARRA. EPA has historically computed grant accruals based on the results of a grantee billing practice survey. The survey documents grantees' billing practices, the cumulative effect of which is used to calculate accrual percentages. Once the grant accrual percentages are calculated, they are applied to current year grantee expenditures paid to calculate EPA's liability for grantee expenditures incurred but not yet billed to EPA.

EPA currently plans to combine ARRA grants with traditional grants and use the combined universe as the basis for its grant accrual calculation. Traditional grants have longer periods of performance than grants with ARRA funds. Only 51 percent of the grant funds have been expended on traditional grants over the past 5 years. ARRA funds are intended to be used faster than traditional grant awards. Consequently, the results of the sample will be skewed because the billing practices for ARRA grants will be different than EPA's traditional grants and not representative of all grants, including ARRA grants. This could misstate the financial statements regarding grant expenditures incurred but not billed.

### What We Recommend

We recommend that the Chief Financial Officer modify the current grant accrual methodology to account for the increase in and nature of grant expenditures due to the ARRA. The revised methodology should separate the two distinct types of grants – ARRA and EPA's traditional grants. EPA should use its historical method for computing the accrual for traditional grants and develop a separate process for the ARRA grants that will consider the intent to expeditiously award and expend ARRA funds. The separate methodology could include amounts reported by recipients on the total amount of funds received and the amount spent on projects and activities, as required by Office of Management and Budget (OMB) Memorandum M09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*.

The Office of the Chief Financial Officer (OCFO) agreed with OIG's recommendations for the Fiscal Year 2009 grant accruals. OCFO will analyze the difference between the grantee's reported expense and EPA records and determine the grant accrual amount for ARRA funds. OCFO is considering other methods for calculating the grant accrual rate for ARRA funds in the event the required OMB reports are not available.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

August 19, 2009

**MEMORANDUM**

**SUBJECT:** Quick Reaction Report:  
EPA Should Revise its Grant Accrual Methodology  
to Address Impact of Recovery Act Funds  
Report No. 09-X-0217

**FROM:** Paul C. Curtis   
Director Financial Statement Audits

**TO:** Maryann Froehlich  
Acting Chief Financial Officer

This is our report on the concerns the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) has with the impact of the American Recovery and Reinvestment Act (ARRA) of 2009 on EPA's grant accrual methodology. This review was not an audit conducted in accordance with *Government Auditing Standards*. We conducted our review from February 20 to July 15, 2009, during which time we evaluated EPA's methodology for calculating grant accruals to determine whether ARRA grants would necessitate a change to how EPA calculates grant accruals for the Fiscal Year 2009 financial statements. Grant accruals in the financial statements represent the costs incurred but not yet paid.

This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures. No written response to this draft is required.

In Fiscal Year 2008, EPA reported grant accruals totaling \$414 million, or 52 percent of EPA's total Accounts Payables and Accrued Liabilities. Such an amount is material to EPA's financial statements. EPA has historically computed grant accruals based on the results of the grantee billing practice surveys. The survey results are used to calculate accrual percentages by grantee. The percentages are then applied to total estimated expenditures to produce the accrual. EPA currently plans to combine the ARRA grants with EPA's traditional grants and use the combined universe for computing grant accruals for Fiscal Year 2009. Office of Management and Budget

(OMB) Bulletin 09-02, *Budget Execution of the American Recovery and Reinvestment Act of 2009*, states in part that Agencies are to take expeditious actions to spend money. EPA's expenditures for grants over the past 5 years have been approximately 51 percent of open grant obligations. By combining the grants and using the same methodology for ARRA funds, which are intended to be spent expeditiously, the accrual for Fiscal Year 2009 could be materially impacted. Because the grant accrual is a significant number on EPA's financial statements, such an impact could materially misstate the financial statements.

The ARRA includes \$7.2 billion for projects and programs administered by EPA. These programs, which will protect and promote green jobs and a healthier environment, include:

**Table 1: Programs Receiving ARRA Funds**

<b>Program</b>	<b>Purpose</b>	<b>Amount</b>
<b>Clean Water and Drinking Water State Revolving Funds</b>	For assistance to help communities with water quality and wastewater infrastructure needs (\$4 billion) and with drinking water infrastructure needs (\$2 billion)	\$6 billion
<b>Brownfields</b>	For competitive grants to evaluate and clean up former industrial and commercial sites	\$100 million
<b>Diesel Emissions Reduction</b>	For grants and loans for projects to reduce diesel emissions	\$300 million
<b>Superfund Hazardous Waste Clean-up</b>	For clean-up of hazardous sites	\$600 million
<b>Leaking Underground Storage Tanks</b>	For clean-up of petroleum leaks from underground storage tanks	\$200 million

Source: EPA Website

The Act and OMB's guidance require agencies to spend the funds quickly in order to stimulate the economy. According to OMB Bulletin 09-02, agencies are to take expeditious actions to spend money while maintaining due diligence to ensure that funds are not wasted. Appropriation language stipulates that funds will remain available for obligation until September 30, 2010. ARRA section 1602 requires that "recipients shall give preference to activities that can be started and completed expeditiously, including a goal of using at least 50 percent of the funds for activities that can be initiated not later than 120 days after ... enactment" of the Act. The Act was enacted on February 17, 2009. For the State Revolving Funds, the law requires that the work "be under contract or construction" within 12 months.

EPA's expenditures for grants over the past 5 years have been approximately 51 percent of funds obligated during the same 5 years. Since ARRA funds are to be awarded and expended quickly, the amount of EPA's expenditures should dramatically increase. Such an increase would impact the basis used for grant accruals because EPA uses expenditures as the basis for the calculation.

OMB Circular A-136, *Financial Reporting Requirements*, states that "Financial statements shall recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) non-exchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date." The Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, describes the general principles governing the recognition of a liability, including the requirement to record accruals.

EPA has historically computed grant accruals based on the results of the grantee billing practice surveys. Once the grant accrual percentages are calculated, they are applied to current year expenditures to date to project future expenditures. Because the percentages are based on the historical spending patterns of grantees prior to the ARRA, the effect of the newer ARRA expenditures would not be included in the percentages.

EPA currently does not plan to revise the historical methodology, and will pull a sample consisting of all grantees, combining traditional grants with ARRA grants. By combining the traditional grants with ARRA grants and using the same methodology, the grant accrual could be distorted due to the effect of the newer ARRA grants that are intended to be expended more quickly. By separating the types of grants into two universes, EPA could develop a more accurate accrual based on the nature of the grants awarded. The traditional grant accrual methodology could be used for traditional grants. EPA should develop a different methodology that will take into account the expeditious expenditure of ARRA funds.

### **Recommendation**

1. We recommend that the Chief Financial Officer separate the ARRA grants from traditional grants in developing the 2009 grant accrual. EPA should use its traditional grant accrual methodology for traditional grants, and develop a separate methodology for ARRA funds that considers the intent to expend such funds expeditiously. The separate methodology could include amounts reported by recipients on the total amount of funds received and the amount spent on projects and activities, as required by OMB Memorandum M09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*.

### **Agency Response and OIG Evaluation**

The Office of the Chief Financial Officer (OCFO) agrees with the OIG's recommendations for the Fiscal Year 2009 grant accruals. OCFO is utilizing the traditional methodology for non-ARRA grants and grantees. This process will not deviate from prior years. In regard to ARRA grants, OMB has directed all grant recipients to report their year-to-date spending by September 30, 2009. OCFO will analyze the difference between the grantee's reported expense and EPA records and determine the grant accrual amount for ARRA funds. OCFO is currently considering other methods for calculating the grant accrual rate for ARRA funds in the event the required OMB reports are not available. We concur with the Agency's response.

If you or your staff have any questions regarding this report, please contact Paul Curtis at (202) 566-2523 or [curtis.paul@epa.gov](mailto:curtis.paul@epa.gov), or Meg Hiatt at (513) 487-2366 or [hiatt.margaret@epa.gov](mailto:hiatt.margaret@epa.gov). The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$10,298.

## ***Status of Recommendations and Potential Monetary Benefits***

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	3	Separate the ARRA grants from traditional grants in developing the 2009 grant accrual. EPA should use its traditional grant accrual methodology for traditional grants, and develop a separate methodology for ARRA funds that considers the intent to expend such funds expeditiously. The separate methodology could include amounts reported by recipients on the total amount of funds received and the amount spent on projects and activities, as required by OMB Memorandum M09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009.	O	Chief Financial Officer			

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
C = recommendation is closed with all agreed-to actions completed  
U = recommendation is undecided with resolution efforts in progress

## Appendix A

## ***FY 2008 Methodology for Automated Posting of Quarterly Grant Accrual Entries***

- 1) Grant accruals are calculated using accrual rates established annually through grantee billing practices surveys. The ratios are revised for the year-end accruals and then used for the first three quarters of the next fiscal year.
- 2) There are different accrual rates calculated for Superfund (Treasury Symbol 68-20X8145) and all other EPA appropriations (Treasury Symbols).
- 3) For Fiscal Year 2008 the grant accrual percentage was 9.33 percent for Superfund and All Other.
- 4) In the automated accrual process, the ratios are applied to grant disbursements made *during the last 12 months*.
  - a) Disbursements *for the last 12 months* are summarized by the Servicing Finance Office, Budget Fiscal Year, fund, object class (Budget Object Class), Budget Organization, Program Results Code, and Site/Project.
  - b) Next step is the appropriate accrual rate is applied to generate the Standard Voucher 17 expense transactions. The Standard Voucher 17 transactions should have an automated reversal on the first day of the last month of the next quarter (e.g., first quarter accruals reversal date March 1, second quarter June 1, third quarter September 1).
  - c) The Standard Voucher 17 transactions are created after the nightly cycle (generally the last weekend of the reporting period) and process automatically at the end of the next business day.
- 5) Office of Financial Management/Reporting and Analysis Staff compares calculated accruals to unliquidated obligations and notifies the finance offices of any modifications to Standard Vouchers that need to be processed in the Suspense Table before the Standard Vouchers post to the general ledger.
- 6) Research Triangle Park-Finance Center provides Office of Financial Management/Reporting and Analysis Staff with a report on Standard Voucher rejects. Office of Financial Management/Reporting and Analysis Staff notifies the finance offices of any rejected Standard Voucher that requires correction and processing.

*Source: EPA Office of the Chief Financial Officer*



**Appendix B*****Distribution***

Office of the Administrator  
Acting Chief Financial Officer  
Acting Deputy Chief Financial Officer  
Acting Director, Office of Financial Management, Office of the Chief Financial Officer  
Deputy, Office of Financial Management, Office of the Chief Financial Officer  
Director, Reporting and Analysis Staff, Office of the Chief Financial Officer  
Acting Director, Office of Financial Services, Office of the Chief Financial Officer  
Director, Las Vegas Finance Center  
General Counsel  
Agency Follow-up Official (the CFO)  
Agency Follow-up Coordinator  
Associate Administrator for Congressional and Intergovernmental Relations  
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