

Foreword

During this semiannual period we continued to work with the Agency to improve operations and help achieve enhanced environmental program results. We emphasized consulting with Agency officials in our planning initiatives and on-going audits to identify where we can help EPA accomplish its mission through increased value from our work. At EPA's request, we reviewed the Great Lakes Program. EPA and its partners have been slow in restoring and maintaining the integrity of the Great Lakes basin. Without systematic and comprehensive ecosystem plans in place, EPA will not be assured that it and others are doing the right, most cost effective, and highest priority activities needed to protect the Great Lakes.

We reported that EPA needs to formally recognize and act on the significance of the growing backlog of Five-Year Reviews of Superfund sites where contaminated wastes remain on-site. Some Five-Year Reviews have found that further corrective actions are needed on-site to protect human health and the environment.

Although we issued an unqualified opinion on EPA's Fiscal 1998 Financial Statements, we are concerned about the Agency's problems in implementing new accounting requirements. It is critical that managers have timely, accurate, and useful financial and management information to make decisions to improve the economy, efficiency, and effectiveness of government. EPA submitted Fiscal 1998 Financial Statements submitted to OMB six months late.

Our performance partnership grant (PPG) audits showed that these grants are not providing all the benefits anticipated. Three PPG audits identified that while recipients realized some administrative savings, flexibility was limited, partnerships needed strengthening, and environmental results were unknown or could not be demonstrated. EPA regions should emphasize PPG work plan accountability by clearly defining commitments, and including defined core performance measures in work plans.

Our criminal investigations focused on prosecuting individuals and companies that, through fraudulent actions, undermine the integrity of the data that the EPA relies on to carry out its mission to protect public health and safeguard the environment. Falsified or altered environmental test data and fraudulent claims for clean up work never performed negatively affect the ability of the EPA and its partners in state and local government and in the private sector to make sound decisions concerning environmental risks and pollution control. In one case, a North Carolina laboratory supervisor and a chemist each pleaded guilty to falsifying reports on sampling data from Superfund sites nationwide. In another case, a Virginia company, specializing in computer-aided technology to assess and remediate soil and groundwater contamination, and its owner were indicted for submitting claims to EPA for work not performed.

Nikki L. Tinsley
Inspector General

Profile Activities and Results

April 1, 1999 to September 30, 1999

Audit Operations (\$ in millions) OIG Managed Reviews: Reviews Performed by EPA, Independent Public Accountants and State Auditors			Audit Operations (\$ in millions) Other Reviews: Reviews Performed by Another Federal Agency or Single Audit Act Auditors		
	April 1, 1999 to September 30, 1999	Fiscal 1999		April 1, 1999 to September 30, 1999	Fiscal 1999
Questioned Costs *			Questioned Costs *		
- Total	\$12.9	\$124.9	- Total	\$ 2.5	\$ 3.9
- Federal	8.7	75.4	- Federal	2.5	3.9
Recommended Efficiencies*			Recommended Efficiencies*		
- Federal	0.1	0.1	- Federal	\$ 0	\$ 1.7
Costs Disallowed to be Recovered			Costs Disallowed to be Recovered		
- Federal	\$ 23.5	\$ 34.9	- Federal	\$ 0.9	\$ 1.4
Costs Disallowed as Cost Efficiency			Costs Disallowed as Cost Efficiency		
- Federal	\$ 0	\$ 0	- Federal	\$ 0	\$ 0
Reports Issued - OIG Managed Reviews:			Reports Issued - Other Reviews:		
- EPA Reviews Performed By OIG:	57	92	- EPA Reviews Performed by Another Federal Agency:	123	224
- EPA Reviews Performed by Independent Public Accountants:	1	9	- Single Audit Act Reviews:	71	135
- EPA Reviews Performed by State Auditors:	0	0			
Total	58	101	Total	194	359
Reports Resolved (Agreement by Agency officials to take satisfactory corrective action.) ***	62	148	Agency Recoveries - Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments.)**		\$66.8M

Investigative Operations			Fraud Detection and Prevention Operations		
Fines and Recoveries (including civil)	\$ 0.2M	\$0.8M			
Investigations Opened	34	75	Hotline Cases Opened	67	138
Investigations Closed	46	82	Hotline Cases Processed and Closed	69	140
Indictments of Persons or Firms	15	20	Personnel Security Investigations Adjudicated	74	287
Convictions of Persons or Firms	7	11	Legislative and Regulatory Items Reviewed	38	56
Administrative Actions Against EPA Employees/ Firms	16	35			
Civil Judgments	5	7			

* Questioned Costs and Recommended Efficiencies subject to change pending further review in the audit resolution process.

** Information on recoveries from audit resolution is provided from EPA Financial Management Division and is unaudited

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

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Section 1– Helping EPA Achieve Its Environmental Goals Program Audits and Investigations

Backlog of Superfund Five- Year Reviews Has Increased Nearly Threefold

The Superfund statute requires that remedial actions, where hazardous substances, pollutants, or contaminants remain on-site, be reviewed every five years to assure that human health and the environment continue to be protected. Some of EPA's five-year reviews have found that corrective actions were needed.

In March 1995, we reported that EPA had not performed a substantial number of reviews because of the low priority Agency management gave them. Our follow-up audit found that the backlog of reviews had increased from 52 to 143 overdue reviews. Further, a growing number of sites will require the reviews since the use of containment remedies has been increasing. To effectively address the backlog, EPA may need to spend approximately \$1 million above the current spending level each year for the next three years.

As of March 1999, EPA issued 63 percent of reviews an average of 17 months after required due dates. As a result, EPA did not inform those in affected communities or the Congress about whether corrective actions were warranted as early as it should have.

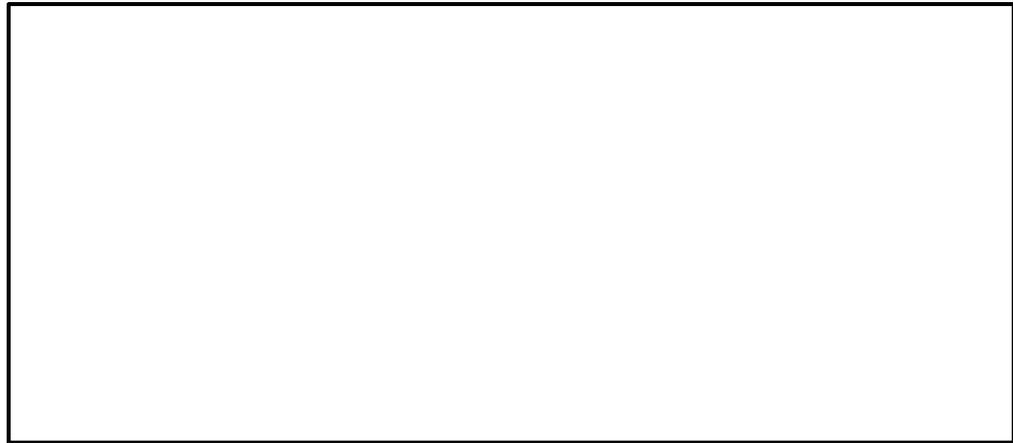
In nine of 32 five-year reports we examined EPA did not conclude on the protectiveness of site remedies or did not adequately support the conclusions made. Half of the reports reviewed which contained recommendations did not identify who was responsible for taking corrective actions.

We recommended that the Assistant Administrator for Solid Waste and Emergency Response (AA) designate the backlog of five-year reviews as a weakness under the Federal Managers' Financial Integrity Act (FMFIA); establish a Government Performance and Results Act (GPRA) performance measure for the reviews; and ensure that reports contain an adequately supported statement of protectiveness.

Agency Action

The final report was issued (1999-P-218) to the AA on September 30, 1999. In response to the draft report, the AA generally agreed with the findings and most of the recommendations. The AA disagreed with establishing a GPRA performance measure at this time, but indicated that five-year reviews would be included as a target in the Superfund Comprehensive Accomplishments Plan. The AA agreed to declare five-year reviews as an Agency weakness under FMFIA. A response to the final report is due December 29, 1999.

*Key Great Lakes
Strategy and
Activities Need
Improving*



At the Beacon Heights Landfill site in Connecticut, a technical representative for the responsible parties explains the operation of the leachate collection system to EPA, state, and industry representatives.

In 1972, the U.S. and Canada signed the Great Lakes Water Quality Agreement to restore and maintain the chemical, physical, and biological integrity of the Great Lakes basin ecosystem. The basin is home to more than one-tenth of the U.S. population, and has some of the world's largest concentrations of industrial capacity. Environmental challenges include contaminated sediments, the effects of exotic species, and loss of habitat. At EPA's request we reviewed the Great Lakes Program.

EPA and states need to improve Lakewide Management Plans (LaMPs) and Remedial Action Plans (RAPs) which were established as systematic and comprehensive ecosystem approaches to address the Great Lakes as a whole, and specific areas of concern, respectively. LaMPs and RAPs are taking longer than expected to complete. For example, while a draft LaMP for Lake Michigan was first published in 1992, it was never finalized; thereby, not meeting the statutory deadline of January 1, 1994. Officials currently plan to issue this LaMP by April 2000. The statutory deadline for incorporating RAPs into state water quality plans was January 1, 1993. To date no U.S. RAPs have been fully implemented. Without these plans, there is no assurance that EPA was doing the right, most cost effective, and highest priority activities needed to protect the Great Lakes.

To improve the LaMP process, EPA needs to place a priority on issuing written plans during FY 2000, and work with its partners to identify and implement ways to make the LaMP process more efficient. To improve the RAP process, EPA needs to establish a coordinator to better organize the RAP liaisons. In developing the next Great Lakes 5-year strategy, the program office should strive to obtain buy-in and commitment from all parties, focus on goals, include performance measures, and provide accountability for implementation.

Agency Action

The final report (99P00212) was issued to the Regional Administrator, Region 5, on September 1, 1999. In responding to the draft report, the Regional Administrator agreed with the recommendations, or proposed alternative actions to address the findings, and stated the following actions will be taken by April 2000: LaMPs will be completed for Lakes Michigan, Erie, and Superior; a report describing the environmental problems in Lake Huron will be issued; and a new Great Lakes Strategy will be completed. Region 5's actions, when completed, will address the findings and recommendations in our report.

EPA had not reauthorized New Jersey's new RCRA (Resource Conservation and Recovery Program) base program more than two and one half years after New Jersey submitted it. By not elevating action to a higher management level earlier, Region 2 allowed the application process to be delayed. Federal regulations divested EPA of its enforcement authority for certain RCRA program activities. Federal authorities unnecessarily delayed or did not pursue enforcement against violators who illegally shipped hazardous wastes to landfills; improperly stored chemicals near a residential neighborhood; and buried flammable paint and waste solvents on private property. Such violations potentially harmed not only the environment but nearby residents.

Region 2 needed to improve its timeliness in issuing enforcement actions and follow-up on violators' return to compliance. The region did not initiate appropriate enforcement actions within 90 days or document the justification for the delays for 9 of 31 cases we reviewed. Region 2 did not follow up on a facility's return to compliance in 12 of the 31 cases. Twenty-five cases had untimely or inaccurate Resource Conservation and Recovery Information System (RCRIS) data. As a result, resources were not being used efficiently to carry out program goals, facilities may not have been treated consistently, violators may have received unfair economic advantage, and facilities were not returned to compliance as expeditiously as possible.

We recommended that EPA develop a process to prevent a lengthy period where its civil and/or criminal enforcement authority would be adversely affected, establish time frames for the process, elevate persistent problems, withdraw state authorization or federal grant funds as appropriate, and improve quality control procedures to ensure reliability and integrity of RCRIS data.

Agency Action

We issued the final report (1999-1-224) to the Regional Administrator, Region 2 on July 21, 1999. In response to the draft report, the Assistant Regional Administrator for Policy and Management agreed with a number of the report's recommendations and believed they had implemented many of them. They believed other recommendations would not have reduced the difficulty experienced during the reauthorization process. A response to the final report is due October 20, 1999.

Region III and Virginia's RCRA Enforcement Program Needs Improvement

EPA advocates taking effective enforcement action against the most serious violators of the Resource Conservation and Recovery Act (RCRA). The most serious violators are known as "Significant Non-Compliers,"(SNCs) or facilities that cause an actual or potential release of hazardous waste; are recalcitrant; experience recurring violations; or significantly deviate from RCRA regulations.

EPA Region III and the Virginia Department of Environmental Quality (DEQ) did not adequately classify facilities with serious violations as SNCs. Although Region III and DEQ usually took appropriate enforcement actions, these actions were unduly delayed, sometimes for several years. These situations occurred because the Region and DEQ did not incorporate EPA's Enforcement Response Policy (ERP) into their enforcement screening processes, and because DEQ emphasized compliance assistance over escalated enforcement. Also, Region III's screening process to decide the type of enforcement can take up to a year. Region III allowed state agencies to almost double the number of days to consider classifying serious violators as SNCs and initiating formal enforcement action.

As a result of these conditions, the most significant violators were unaware of the gravity of their violations, enforcement was unduly delayed, and facilities remained non-compliant which may have increased the potential for harm to human health and the environment. We recommended that the Region III Administrator ensure that DEQ and Region III personnel adhere to EPA's ERP policy regarding classifying SNCs and taking expeditious enforcement action.

Agency Action

We issued the final report (1999-P-00215) on September 20, 1999 to the Region III Administrator. In response to the draft report, most of the Region III Administrator's comments met the intent of our recommendations. The response, however, did not specifically agree to require states to classify serious violators as SNCs in accordance with ERP timeframes. A response to the final report is due by December 19, 1999.

Mississippi Provides Basic Protection for its Waters, Longstanding Problems Still Exist

Clean and safe water capable of sustaining human health and aquatic life is one of EPA's ten strategic goals. Under the Clean Water Act, EPA and states have developed water quality standards and programs that monitor and report the quality of state waters. Generally, Mississippi's standards provided basic protection for most of its waters. However, certain state water quality criteria had been inconsistent with EPA guidance for ten years or more. In addition, the state had not produced acceptable antidegradation implementation procedures to ensure water quality protection and maintenance for its highest quality waters.

Since 1997, Mississippi's monitoring program has seen tremendous growth in both staff and monitoring activities. However, its monitoring program did not use trend analysis to track the degradation or improvements in water quality. The state also made limited use of advanced monitoring techniques such as biological monitoring and habitat studies. These techniques provide the primary indicators of the ecological condition of watersheds and are needed to maximize the effectiveness of the state's monitoring program.

Although Mississippi generally provided complete and accurate water quality reports, reports were submitted up to two years late. Significantly late reports decrease their usefulness and effectiveness as a management tool for both EPA and the state.

Region 4 also did not provide sufficient oversight and technical assistance to the state to resolve longstanding deficiencies in water quality criteria and antidegradation procedures. As a result, Mississippi's water quality program had not been as effective and protective of its waters as it could have been.

We recommended that the Regional Administrator, Region 4, emphasize resolving problems with Mississippi's water quality program by strengthening its oversight and technical assistance; assisting in developing a long-term monitoring strategy; and developing regional procedures that ensure a timely review and decision on water quality standards.

Agency Action

The final report (1999-P00219) was issued to the Regional Administrator, Region 4 on September 29, 1999. In response to the draft report, the Region generally agreed with the recommendations and indicated actions had been initiated to enhance regional oversight of state water quality standards and monitoring programs. The Region's response to the draft report was considered adequate to resolve all of the recommendations and the report was closed upon issuance.

EPA Achieves Some Success Assisting Federal Facilities With Environmental Compliance

Federal facilities, including buildings, industrial operations, and military bases, must comply with all federal environmental statutes and regulations, as well as applicable state and local requirements. EPA has concentrated its inspection, enforcement, and compliance assistance activities where it has penalty authority. As EPA gained additional authority to impose penalties, environmental compliance for federal facilities improved. For example, the federal facility compliance rate for the Resource Conservation and Recovery Act (RCRA) increased 13% from 1992 to 1996. Conversely, under the Clean Water Act (CWA) with no penalty authority, there was a 17% decrease in compliance in the same period.

In 1998, Yellowstone National Park had four separate spills of thousands of gallons of sewage into pristine park waters. Although penalties were assessed by the state of Wyoming as an enforcement action against the Park, the lack of penalty authority against federal facilities means it is questionable whether the penalties will result in return to compliance.

Region 6 developed a Federal Facilities Risk Impact Analysis. The Impact Analysis could help EPA determine its federal facilities inspection and enforcement program priorities if it proves successful and is applied on a national scale.

EPA compliance assistance for federal facilities involves workshops, training, use of Internet and print resources, telephone assistance, and on-site Environmental Management Reviews. However, EPA cannot determine the effectiveness of its compliance program because EPA lacks adequate feedback mechanisms.

Defendants Sentenced to Prison for Attempted Theft, False Statements, and Forgery

Two People Indicted and Arrested For Scheme Using Fraudulent EPA Purchase Orders

We suggested that the Director, Federal Facilities Enforcement Office (FFEO), seek penalty authority for the Clean Water Act and other environmental statutes; evaluate Region 6's Impact Analysis initiative as a method to prioritize compliance and enforcement activities; and develop a mechanism to assess effectiveness of compliance assistance activities.

Agency Action

The final report (1999-P-00209) was issued to the Director, FFEO, on June 14, 1999. FFEO generally agreed with the memorandum report and suggestions, and we closed the report on issuance.

On April 22, 1999, Gary L. Jones and Nadine E. Starks were sentenced in Superior Court, Fannin County, Georgia, following a March 1999 jury trial in which each was found guilty of one count of criminal attempt to commit theft by deception, one count of making false statements, and two counts of first degree forgery. Jones will serve a ten year sentence, 5 years in prison and 5 years on probation. He was also ordered to pay a \$1000 fine and perform 80 hours of community service. Starks will serve 10 years probation, pay a \$1000 fine, and perform 240 hours of community service. Jones and Starks were tried on charges that Jones represented himself to an Ellijay, Georgia, homeowner as an employee of Atlanta Testing, Inc. (ATI); told the resident that ATI had contracted with EPA to locate and remove canisters containing toxic waste; and stated that he had been directed by EPA to perform soil tests under the concrete slab in their garage. Further, Jones presented to the homeowner a business card and letter purportedly from an EPA employee but which had been forged by Starks, stating that Jones had been directed to perform the remedial work. *This investigation was conducted jointly by the EPA OIG and the Fannin County (Georgia) Sheriff's Office.*

On September 15, 1999, a female defendant who uses variations of the name "Cheryl T. Burnette" was indicted in U.S. District Court, District of New Hampshire, on charges of wire fraud and impersonating a government employee. On September 28, 1999, the United States Attorney's Office in New Hampshire filed a criminal complaint against a male defendant who uses the name "Michael Tamulis," charging him with conspiracy to commit wire fraud. The two individuals, whose true identities are still unknown, were arrested in Hartford, Vermont. According to the charges filed, the defendants falsely represented themselves as employees of the EPA through a sham business entity known as United States Environmental. Allegedly, both individuals used their assumed identities and fictitious government affiliation to steal more than \$75,000 in goods and services from individuals and businesses located in New Hampshire, Massachusetts, Vermont, Washington, D.C., Georgia, and several other states. The alleged scheme included using fraudulent government procurement numbers and purchase orders to establish direct billing accounts with victims who believed they were doing business with and would be paid by the Federal government. *This investigation was conducted jointly by the EPA OIG; the New Hampshire Attorney General's office; the Salem, New Hampshire, Police Department; and the Hartford, Vermont, Police Department.*

Man Sentenced in Postage Scheme That Falsely Represented EPA to Businesses and Private Citizens

On August 20, 1999, Charles E. Bungard pled guilty in United States District Court, Eastern District of Virginia, to one count of counterfeiting U.S. postage stamps. He was sentenced to serve six months in prison with credit for time served and charged a \$100 special assessment. This investigation was based upon a citizen complaint to EPA's Public Liaison Division and a return to EPA from the U.S. Postal Service of approximately 150 first class letters containing an EPA return address along with apparent counterfeit government postage indicia. The letters, addressed to a variety of commercial businesses and individuals, contained pornographic pictures, rambling anti-government narrative, and references to other business entities. The investigation determined that Bungard had mailed approximately 2000 such pieces of mail, using variously a counterfeit Department of Treasury mailing permit, a counterfeit 32 cent stamp, and a counterfeit postage meter stamp. In 1987, Bungard had been indicted for the same offenses but was never located. The outstanding warrant was quashed in 1996. As a result of this recent investigation, an arrest warrant was issued in March 1998. During the course of the investigation, Bungard continued to make threatening mailings using counterfeit postage. He was arrested on October 2, 1998, by the Gaithersburg City (MD) Police, based on the federal warrant. He was extradited to the Eastern District of Virginia where he was as taken into federal custody. *This investigation was initiated jointly by the EPA OIG and the U.S. Postal Inspection Service and joined by the Federal Bureau of Investigation, the U.S. Secret Service, and the Maryland State Police.*

Environmental Consulting Company and President Debarred for 20 Years

On June 10, 1999, Safety Management Institute, Inc. (SMI), of Roaring Spring, Pennsylvania, and Christopher Tate, SMI president, were each debarred for a 20 year period measured from their initial suspension on July 28, 1997. Tate and SMI have been debarred from participation in federal assistance, loan, and benefit programs, and by reciprocal effect, from federal procurement. The debarment action was taken as a result of the criminal prosecution of Tate and SMI based on an investigation conducted jointly by the OIG and the Pennsylvania Office of the Attorney General. In February 1998, Tate pled guilty in Blair County, Pennsylvania, to felony charges of violating the Pennsylvania Solid Waste Management Act and was sentenced to 10 to 24 months in Blair County Prison and 5 years probation with the condition that he not engage in any environmental work. Tate also pled guilty in Dauphin County, Pennsylvania, to felony charges of tampering with public records and misdemeanor charges of violating the Pennsylvania Underground Storage Act. He was sentenced to 9 to 24 months imprisonment and 5 years probation to be served concurrently with the sentence imposed in Blair County. SMI was a contractor engaged in the removal of underground storage tanks in Hanover, Pennsylvania, during 1994 when Tate committed the violations and failed to report that he was previously debarred from government contracting until March of 1995. That previous period of debarment followed an OIG investigation that resulted in Tate's conviction in U.S. District Court, Western District of Pennsylvania, of providing falsified certifications to the EPA in an application for approval of an asbestos abatement course. Tate's conduct in this action was also imputed to SMI. The current extended period of debarment was determined to be warranted by Tate's and SMI's recent and earlier criminal conduct.

Audit Update

Rhode Island Makes Major Improvements in RCRA Enforcement

In January 1999, the OIG reported that the Rhode Island Department of Environmental Management (RIDEM) was inadequately enforcing federal RCRA (Resource Conservation and Recovery Act) regulations, and recommended actions to improve enforcement. Rhode Island did not take formal enforcement action on serious violations, such as leaking battery acid and drums of hazardous waste. EPA's Region 1 Administrator has since reported that RIDEM had satisfied the nine criteria EPA designed for Rhode Island to demonstrate that it could administer a credible RCRA program. RIDEM adopted EPA's RCRA Enforcement Response Policy until its own policy is approved; was properly identifying and initiating formal enforcement actions against RCRA significant non-compliers; conducted timely follow-up inspections for newly concluded cases; and established the necessary tracking and policy mechanisms to ensure that proper escalation of a case can and will occur. The Regional Administrator determined that withdrawal of the RCRA program was not warranted, and planned for regional and state staffs to continue to meet monthly.

Idaho Makes Major Improvements in Air Enforcement

In September 1998, the OIG issued an audit report sharply critical of air enforcement activities in the State of Idaho. EPA Region 10's lack of oversight, minimal penalties that did not deter noncompliance, and recalcitrant polluters with histories of repeated violations were discussed as areas needing improvement. Since the report was issued, Idaho agreed to include economic benefit considerations in its penalty assessments. Two violators have agreed to penalty settlements of \$200,000 and \$187,000, and a settlement of about \$100,000 is pending with another significant violator. Idaho's imposition of such substantial penalties are unprecedented. Region 10 and Idaho has finalized a new Compliance Agreement. The new Director of the Idaho Division of Environmental Quality introduced a plan which empowers employees in regional offices to conduct inspections, issue permits and make decisions on air, water and waste issues. The 1998 OIG audit report recommended that EPA require Idaho to develop and implement policies and procedures that are consistent with EPA enforcement and inspection guidance, and, if Idaho is unable or unwilling to comply, EPA assume enforcement responsibility. From the actions taken subsequent to our report, it appears that EPA and Idaho have been successful in addressing these air enforcement issues.

Superfund Sites Inappropriately Deferred to RCRA

A March 1999 OIG report found that hundreds of the 3,000 sites transferred from SF to the Resource Conservation and Recovery Act (RCRA) program did not meet EPA's criteria for transfer, and that less than two percent of deferred sites have been cleaned up. Sites inappropriate for deferral have been in EPA's inventory an average of 17 years. EPA requested regional offices to reevaluate their plans for how to prioritize sites to be added to the National Priorities List (NPL) after OIG and GAO reports identified thousands of sites that still need to be addressed by the Superfund (SF) program. EPA developed concepts for a national plan to help regions balance their priorities and identify which sites should be added to the NPL right away, and which should be deferred to other programs or issued a no further action decision. Also, EPA is considering issuing guidance next year after additional feedback is collected from the regions. We recommended strengthening deferral procedures, and improving communications and collaboration between the SF and RCRA programs for deferring sites from one program to another.

*EPA Terminated
an Inappropriately
Awarded Grant*

In March 1999 the OIG reported that EPA awarded a noncompetitive grant to the Center for Chesapeake Communities (CCC) without adequate justification. The award created an appearance of preferential treatment that compromised the integrity of the Chesapeake Bay Program. In June 1999, Region III terminated the grant to CCC. In order to support the Chesapeake Bay Program's continuing need for local government and community assistance, Region III issued an open public request for grant proposals, and competitively awarded a new grant to another organization. Region III also developed a management plan for competing nonprofit grants for the Chesapeake Bay Program Office, and initiated a vulnerability assessment for that office.



Financial Management

EPA Receives Unqualified Opinion On Financial Statements, However, Further Process Improvements Are Needed

We issued an unqualified opinion on EPA's fiscal 1998 Financial Statements. However, weaknesses in the Agency's process for preparing financial statements prevented it from producing reliable financial statements by the legislatively mandated March 1 deadline. The statements were finally submitted to OMB on September 30, 1999. The Agency experienced delays in obtaining some information and problems in implementing new accounting standards and OMB reporting requirements. In particular, the Agency encountered significant difficulties in preparing the Statements of Budgetary Resources and Financing due to weaknesses in: (1) the Agency's deobligation process, (2) conversion of accounting information from EPA's predecessor accounting system, and (3) errors in recording various accounting transactions.

Process improvements are needed to ensure accurate data is available to prepare the annual financial statements and to manage EPA's program activities on an ongoing basis. Improvements in the Agency's deobligation process could result in additional funds being made available to support its environmental goals.

The Federal Financial Management Improvement Act (FFMIA) requires that we determine, during our annual financial statement audits, whether EPA's financial management systems substantially comply with Federal financial management system requirements, applicable accounting standards, and the Standard General Ledger. We identified two noncompliance issues: (1) As discussed above, material weaknesses existed in the Agency's process for preparing financial statements. (2) As of September 30, 1998, management had not approved security plans for seven financial or mixed financial systems, and the approved security plans for the remaining eight systems did not comply with the requirements of OMB Circular A-130, *Management of Federal Information Resources*. As a result, the Agency lacked reasonable assurance that existing controls would prevent unauthorized disclosure or manipulation of data, or the loss of data in the event of a disaster or accidental or intentional damage.

During our fiscal 1997 financial statement audit, we also reported security planning as an FFMIA non-compliance issue. At that time, EPA did not have security plans. Subsequently, EPA developed a remediation plan and completed security plans for its core financial systems. However, weaknesses in these security plans combined with missing mixed financial system security plans continued to place the Agency in noncompliance with FFMIA.

We recommended the Chief Financial Officer (CFO) update procedures for preparing financial statements, establish quality review processes, and develop reports for annual reviews of obligations that highlight older open obligations. We also recommended the CFO develop a remediation plan to address the critical security controls outlined in our report.

*EPA Agrees To
Take Steps To
Improve Reporting
Of Its Pesticides
Activities*

Agency Action

We issued the final report (99B0003) to the CFO on September 28, 1999. In response to the draft report, the CFO indicated her office is committed to continued improvements in financial management with specific emphasis on improving the process that produces the Agency's financial statements. With respect to FFMIA compliance, the CFO believes the Agency is in substantial compliance, and steps are being taken to remedy the deviations from procedural requirements we noted. The Agency's response to our final report is due by December 28, 1999.

EPA is responsible for reassessing the safety of older pesticide registrations against modern health and environmental testing standards. The Food Quality Protection Act (FQPA) requires tolerances (the maximum legal limit of a pesticide allowed on food) to be reassessed as a part of the reregistration program. EPA deposits fees for reregistration and tolerance activities into the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund). Each year the Agency prepares FIFRA financial statements that include information about EPA's progress in reregistering pesticides and reassessing tolerances.

The fiscal 1998 FIFRA financial statements were fairly presented. However, we identified weaknesses in the Agency's reporting of its performance measures. FQPA mandates that EPA reassess, over a 10 year period, nearly 10,000 existing tolerances and tolerance exemptions, giving priority to those pesticides posing the greatest possible risk. During fiscal 1998, tolerances were manually tracked by program officials within one of the four divisions that reassess tolerances. As a result, the Agency could not be assured it had captured all of its program accomplishments. In addition, the Office of Pesticide Programs needed to report the program accomplishment data required by FQPA more timely. FQPA requires we audit this data by March 1 of the subsequent year. However, as of September 1999, the data had not been published. Further, the performance information included in the FIFRA financial statements did not include all of the information FQPA requires the Agency to report.

We recommended the Office of Pesticide Programs develop a standardized process for compiling data to ensure data reported to Congress, the public and EPA's stakeholders is accurate, complete and timely. We also recommended the office incorporate the additional FQPA required data into its annual financial statements.

Agency Action

The final report (9910283) was issued to the CFO and the Acting Assistant Administrator for Prevention, Pesticides, and Toxic Substances on September 27, 1999. In response to the draft report, the Acting Deputy Director for Pesticide Programs reported the office had developed and was implementing standardized procedures for annually tracking and reporting on its program accomplishments. In addition, the office plans to compile all of the FQPA required data within 30 days after the end of the year and include the data in the FIFRA financial statements. A response to the final report is due by December 27, 1999.

OIG Continues to Assist EPA In Implementing Cost Accounting

During fiscal 1999, EPA was implementing costs accounting procedures to align its budget and accounting data with data about its environmental results. We continued to work with the Agency on this project by participating in a work group and reviewing draft procedures. We provided to Agency managers suggestions for strengthening controls and ensuring consistent, reliable and useful data to use in carrying out their environmental programs.

Superfund Special Accounts Severely Understated

In October 1995, EPA announced its intention to encourage greater use of special accounts as a means to ensure that settlement funds received, and interest earned, were available for future response actions for a specific site. This administrative reform assists in providing an incentive for early settlement with Potentially Responsible Parties (PRP) and, thereby, reducing litigation costs. Through June 1998, 112 special accounts with settlement receipts of \$383 million, an additional \$64 million in earned interest, and \$41 million in disbursements. Since the reform was implemented, the number of accounts opened increased 35 to 112 or 320 percent, with continued growth expected in the future.

We found that EPA's general ledger balances did not agree with its special account data base, earned interest had not been posted for six months, there was inconsistent use of the accounts between regions, and PRP settlement documents did not always delineate between what should be past or future cost receipts. General ledger balances were understated by \$93 million in settlement receipts, \$8 million in earned interest, and \$96 million in disbursements. Also, regional personnel were not always aware of special accounts.

Of the PRP settlement documents reviewed, 26 percent did not clearly delineate between past and future cost payments. EPA has long recognized this problem. EPA policy required that cost recoveries be deposited to the Superfund Trust Fund and future cost receipts be deposited to Superfund special accounts. If settlement documents did not specify receipts as either past cost recoveries or future cost funds, Agency personnel had difficulty in determining where receipts should be deposited and how they should be used.

We made recommendations to the Chief Financial Officer (CFO) and to the Assistant Administrator for Enforcement and Compliance Assurance (OECA) that would improve the use and administration of special accounts.

Agency Action

The final report (1999-P00214) was issued to the CFO and Assistant Administrator for OECA on September 28, 1999. In response to the draft report, the CFO agreed with our recommendations and provided planned corrective actions. The CFO has begun reconciling the special account general ledger accounts. OECA agreed to instruct regional staffs about special accounts. A recent Office of General Counsel opinion indicated that EPA has the legal authority to retain cost recoveries in a special account. Therefore, delineation of past and future costs in settlement agreements may no longer be an issue. A response to the final report is due December 27, 1999.

Assistance Agreement Audits and Investigations

EPA Paid In Full For Limited Work Completed Under a Grant

With Congressionally earmarked funds, EPA's Office of Small and Disadvantaged Business Utilization (OSDBU) awarded the National Association of Minority Contractors (NAMC) a grant to assess the adequacy of ten state programs for making contracting opportunities to small and disadvantaged contractors, and to provide 10 conferences to inform contractors of impending EPA contracting opportunities. Although NAMC completed only a small portion of the required work, OSDBU allowed NAMC to draw down all of the \$750,000 in grant funds. This occurred in part because OSDBU did not adequately monitor NAMC's performance.

Moreover, EPA approved an amendment to the grant allowing NAMC to replace conferences with "needs assessments." EPA is allowed to receive only incidental benefit from a grantee's efforts. Had EPA adequately monitored NAMC's work, it would have realized that NAMC conducted "needs assessments" primarily at EPA regions, and that EPA received more than incidental benefit from this work. As a result, EPA allowed NAMC to inappropriately conduct contract work under the grant.

We recommended that EPA project officers ensure recipients comply with the terms of the agreement; that the draw down of federal funds is proportional to the recipients' rate of progress; and that EPA monitor recipients' work to ensure that contract work is not completed under a grant.

Agency Action

We issued the final report (1999-00213) to the Directors of OSDBU and Grants Administration Division on August 23, 1999. In response to the draft report, the Agency partially agreed with our findings and recommendations. The Agency contends that it cannot ensure draw down of funds is proportional to recipients' rate of progress. A response to the final report is due by November 22, 1999.

Regional PPGs Implementation Needs Improvement to Achieve Program Goals

Performance Partnership Grants (PPG) is a multi-program grant made to a state or tribal agency from funds previously provided only through grants for individual environmental programs. PPGs are intended to: (1) reduce recipients' administrative burdens and costs, (2) provide recipients flexibility, (3) strengthen partnerships, and (4) most importantly, improve environmental results.

We completed three separate audits of PPGs in Regions 4, 6, and 8. Each of the three regions could have more effectively implemented its PPG program. In Region 4, some grant recipients had misconceptions about the benefits and requirements which discouraged them from participating in the program. Regional and state officials in Region 6 did not always agree on individual roles and responsibilities regarding PPGs, especially enforcement. In Region 8, some staff disagreed with how senior regional management chose to implement the program and did not actively participate in the PPG process.

While recipients have realized some administrative savings, flexibility was limited, partnerships needed strengthening, and environmental results were unknown or could not be demonstrated. Some recipients did not realize anticipated administrative savings because of state reporting requirements. Recipients took limited advantage of PPG flexibility because funds were generally viewed as insufficient to address both core program requirements and other state environmental priorities. In Regions 6 and 8, disagreements between regional and state officials weakened the partnership for some programs, but generally partnerships had improved. In all three regions, PPG work plans continued to contain primarily output measures rather than outcome measures resulting in regions having difficulty demonstrating improved environmental performance. Recipient and regional officials recognized the need for a better mixture of output and outcome measures, but cited barriers as lack of resources, baseline data, and good examples of outcome measures.

All three regions needed to improve PPG work plan accountability by clearly defining PPG commitments. Without work plans that clearly demonstrate adequate accountability, regions and recipients could not determine or demonstrate improved environmental performance. The regions needed to ensure required core performance measures were included or clearly identified in the work plans.

We recommended that each Regional Administrator develop a strategy to address the barriers to accomplishing the four PPG program goals within their region. We also recommended that the regions develop work plans with recipients that include a better mixture of output and outcome measures and clearly identify core performance measures.

Agency Action

The final reports were issued to the respective Regional Administrators: Region 4 on September 27, 1999, Region 6 on September 22, 1999, and Region 8 on September 29, 1999. In response to the draft reports, the Regional Administrators for Regions 6 and 8 generally agreed with the majority of the recommendations. Region 4 did not provide written comments to the draft report. Responses to all three final reports are due in December 1999.

The Western States Air Resources Council (WESTAR) is a nonprofit association of state air regulatory agencies created to discuss and resolve regional air issues of common concern. Region 10 awarded three grants to WESTAR under Section 103 of the Clean Air Act (CAA). Among other uses, Section 103 authorizes grant awards to nonprofit organizations to conduct training for individuals related to the causes, effects, extent, prevention, and control of air pollution.

Of the \$3,217,677 WESTAR claimed under the three grants, we questioned \$907,168 of ineligible and unsupported costs. The majority of the costs questioned relate to non-training activities, including inspections and emissions inventories which are not authorized under CAA Section 103, but are the responsibility of EPA or the selected air pollution control agencies. Also, we questioned the costs associated with the Pollution Prevention Permitting Pilot Program because it is not authorized under Section 103.

Region 10 Needs to Improve its Administration of WESTAR Grants, and Cost Questioned

We questioned the costs that WESTAR budgeted as indirect cost, but claimed as direct costs without EPA's prior approval as required by Federal regulations. The claimed costs were adjusted for program income and credits and rebates which WESTAR had not credited to the grants.

We identified a number of Region 10 grant award and administration weaknesses which caused or contributed to findings in the audit of WESTAR or were contrary to EPA policies/procedures or good grants management practices. As a result, we issued an advisory report to Region 10. To reduce financial losses and legal vulnerabilities, we recommended that Region 10:

- (1) assure that grants include only tasks authorized under Section 103 of the CAA.
- (2) award grants and amendments that *exclude* tasks that should have been obtained under contract where the tasks are for the direct benefit of EPA, or EPA directs the work of WESTAR's subcontractor;
- (3) avoid direct influence in matters related to WESTAR's subcontract award and administration responsibilities;
- (4) eliminate like tasks with overlapping periods of performance; and
- (5) eliminate grant provisions that permit both the direct and indirect charging of administrative activities.

In response to our draft reports, WESTAR and Region 10 contended that the projects questioned were eligible under the Clean Air Act and further that the work was appropriately funded as a grant, not a contract. WESTAR generally agreed to correct its accounting and procurement internal control weaknesses. Region 10 agreed to implement recommendations in our advisory report for improving grant management practices.



Contract Investigations

Environmental Company and President Charged With Defrauding Customers

On April 22, 1999, Environmental Systems & Technologies, Inc. (EST), of Blacksburg, Virginia, and its president and owner, Jack C. Parker, were indicted in U.S. District Court, Western District of Virginia. The indictment charges EST and Parker with conspiracy, making false statements, submitting false claims, and mail fraud. EST, an environmental company specializing in the development and application of computer-aided technology to assess and remediate soil and groundwater contamination, and Parker allegedly engaged in a scheme to defraud their customers by mischarging and over billing. Parker is charged with directing and encouraging his employees to falsify their time sheets by mischarging hours spent on a particular project in order to maximize the hours spent on each customer's contract to receive full payment under the contract regardless of the actual work accomplished. EST, as a subcontractor to IT Corporation (IT) on a contract with EPA, allegedly mischarged 123 hours on timesheets it submitted to IT which submitted the alleged false claim to EPA for payment.

Chemist and Supervisor Pled Guilty to Falsifying Laboratory Analyses

On July 21, 1999, Valerie Smith, a laboratory chemist, and Mark Bevan, a laboratory supervisor, each pled guilty in United States District Court, Eastern District of North Carolina, to making a false statement and aiding and abetting others in the commission of making a false statement. In May 1999, Smith and Bevan, employees of CompuChem Environmental Corporation of Cary, North Carolina, were charged with conducting improper gas chromatograph/mass spectrometer analyses on samples taken from hazardous waste sites nationwide and falsely certifying that the analyses complied with all EPA contract requirements. The EPA relies on the testing data provided by laboratories participating in the Contract Laboratory Program to assess threats to public health and the environment and to determine where and when remedial action is needed.



Employee Integrity Investigations

Former EPA Employee Sentenced to Prison, Home Detention, and \$56,197 in Restitution

On June 16, 1999, Gwendolyn Wilder Manson was sentenced in U.S. District Court, District of Maryland, to serve 4 months in prison, 3 years probation which includes 4 months of home confinement, and to pay \$56,197.18 restitution. The restitution will be made to EPA in the amount of \$53,997 and to two private individuals in the amount of \$1,200 and \$1,000, respectively. Under the restitution schedule, Manson will forfeit to EPA her interest in her retirement account and Thrift Savings Plan. In March 1999, Manson pled guilty to one count of theft of government property. While an EPA employee, the defendant, a GS-14 Information Management Specialist, made unauthorized purchases of computers and computer-related equipment using a Government-sponsored business account VISA card. She also stole computers that were legitimately purchased for EPA. Manson then sold the purchased and stolen computers and equipment for cash for personal use. The sales were made to local pawn shops and individuals. In two instances, co-workers were victimized by the defendant selling them converted equipment that the employee represented as personal property. Investigative efforts have led to the recovery of over \$10,000 worth of the equipment from local pawn shops and individuals. Based upon the facts disclosed by the OIG investigation, Manson was terminated from employment with EPA.

Former Employee Sentenced to Probation, Home Detention, and to Repay \$31,000

On April 28, 1999, Rochel Haigh Blehr, a former EPA employee, was sentenced in U.S. District Court, Northern District of Georgia, to serve 5 years probation which will include 6 months of home confinement; perform 100 hours of community service; pay \$25,000 in restitution; and pay a \$6000 fine. In January, Blehr pled guilty to a one count information charging her with making a false statement to obtain benefits under the Federal Employees' Compensation Act (FECA). Blehr had filed a benefits claim for loss of work due to exposure to formaldehyde in the office environment. Blehr, a former EPA computer data technician, is the sole owner and publisher of a local newspaper incorporated in the State of Georgia as a domestic for profit corporation. The information charged that Blehr falsely represented that she had turned over all responsibilities for overseeing the newspaper to a vice president of the company when, in fact, she knew she had not done so. *This investigation was conducted jointly by the EPA OIG and the Department of Labor OIG.*

Employees Charged With Conspiracy, Obstruction of Justice, and Perjury

On August 24, 1999, an EPA attorney and an EPA environmental specialist were indicted in United States District Court, Eastern District of Wisconsin, on charges of conspiracy, obstruction of justice, and perjury. The indictment charges that the defendants conspired to deceive the federal courts by providing false statements, affidavits, and testimony in conjunction with separate lawsuits brought by the State of Wisconsin and other parties challenging the EPA's decisions to grant the Menominee Indian Tribe (Menominee), the Oneida Tribe of Indians of Wisconsin (Oneida), and the Lac du Flambeau Band of Lake Superior Chippewa Indians (Lac du Flambeau) TAS status (i.e., treat in the same manner as a state) as provided for under section 518 (a) of the Clean Water Act. The Menominee, Oneida, and Lac du Flambeau sought TAS status in order to develop a water quality standards program to determine the quality of surface waters within their respective reservations. On January 25, 1996, EPA approved the three applications for TAS status. The indictment charges that the primary object of the alleged conspiracy and subsequent criminal acts was to deceive the federal courts into believing that three documents (factual analyses of

substantial effects of non-Indian activities within each applicant's reservation) were created in January 1996 and were relied on by the EPA to make its decisions when, in fact, the defendants created these documents in May 1996 after the lawsuits were filed. The TAS lawsuits were subsequently dismissed and the EPA was ordered to pay the State of Wisconsin and other parties approximately \$389,000 in attorney's fees and court costs.

*Former Employee
Received a
Suspended
Sentence,
Probation, and
Ordered to Pay
Restitution*

On May 11, 1999, Michelle Morris, former secretary, Federal Facilities Restoration and Reuse Office, Office of Solid Waste and Emergency Response, pled guilty in Superior Court of the District of Columbia to one count of second degree theft. As secretary, one of Morris' duties was to process claims for reimbursement for expenditures relating to official business. During November and December of 1998, Morris submitted seven fraudulent claims for reimbursement on which she forged variously the signatures of the claimant, approving official, or the initials authorizing her to pick up the cash reimbursement from the imprest fund. Three of the fraudulent claims, containing three forgeries, were discovered by office personnel before they were approved. Morris received cash payments on the other four fraudulent claims. Based on these facts, an arrest warrant had been issued in April 1999 charging Morris with uttering. In response to the warrant, Morris voluntarily reported to the Metropolitan Police Department, was placed under arrest, and was released on personal recognizance while she awaited disposition of the case. On June 21, 1999, Morris received a 60 day suspended sentence, two years probation, and was ordered to pay restitution and a special assessment that will be applied to the fund for Victims of Violent Crime. Morris resigned from EPA effective May 13, 1999. *This investigation was coordinated with the Metropolitan Police Department, Washington, D.C.*

*Former Temporary
Employee
Sentenced for
Personal Long
Distance Calls
From Work*

On May 5, 1999, Carlos Antonio Ramirez, a former student temporary employee in the Facilities Program Office, Region 9, was sentenced in U.S. District Court, Northern District of California, to three years probation, 83 hours of community service, and ordered to pay \$17,477 restitution to EPA and a \$25 special assessment. The sentencing followed acceptance of Ramirez' guilty plea to a misdemeanor charge of conversion of property by a government employee. An internal review by office personnel discovered that an inordinate number of international calls were placed to Nicaragua from Ramirez' work site. Ramirez, a Nicaraguan native, acknowledged that he had placed the unofficial calls which amounted to the total restitution ordered.

Hotline Activities

During this reporting period, the OIG Hotline opened 67 new cases and closed 69, including eight from the previous reporting period. The pie chart shows the distribution of the 67 opened cases.

Hotline Case Referral Distribtuion

Complaints continue to be reviewed by a team of auditors, evaluators, and criminal investigators as conditions warrant. All matters significant enough to require a response are monitored until the necessary resolution action is planned or taken. Complaints are analyzed to identify trends which should be considered in the audit and investigative planning processes. During the next reporting period, we will complete our efforts to revamp and expand the OIG Hotline Web page.

Section 2-Fostering Strong Working Relationships Advisory and Assistance Services

Assistance Provided to Improve Start-2 Contracts

The OIG conducted a review to assist Agency management in developing contract provisions and a statement of work to foster more effective START-2 (Superfund Technical Assessment and Response Team) contract performance. START contracts support EPA's site assessment, response, prevention and preparedness, and some technical support activities. START-2 is the second round of these contracts. We suggested EPA address several areas during the START-2 acquisition process to help optimize contractor performance:

EPA should not dictate the use of dedicated staff in START-2. Dedicated staff may not always be kept busy and use of dedicated staff does not further OMB's performance based-strategy of specifying the tasks to be performed rather than the staff or method to perform the task. The Agency believes some dedicated staff is necessary but will work to reduce the use of dedicated staff based on the contract requirements.

EPA should develop incentives to encourage exceptional contractor performance. The Agency believes that the performance-focused statement of work and the use of multiple awards provide the contractor with sufficient incentives to perform well.

EPA should include contract provisions which address the requirement for the contractor to implement an EPA approved quality management plan. It is important to have a system in place to ensure the quality of the data provided under the contract since the data is used as the basis for EPA's decision making and enforcement actions. The Agency included data quality requirements in the contract clauses and solicitation.

Performance Partnership Grant Joint Review Identified Areas for Improvement

EPA designed Performance Partnership Grants (PPGs) to encourage improved environmental performance by linking program goals with outcomes and by increasing the use of environmental indicators and performance measures.

In July 1999, the OIG and EPA Region 10 completed a Joint Management Assistance Review of the 1998 Alaska PPG. The purpose was to determine the effectiveness of the Performance Partnership approach and whether it improved environmental results, provided the state with greater flexibility, improved public understanding of environmental conditions and choices, and enhanced accountability to the public and taxpayers.

Although sufficient time had not elapsed to determine if environmental results were improved, the Performance Partnership approach provided the state with greater flexibility and fostered better working relationships between the region and the state. The joint review identified several areas needing improvements: (1) ensuring that EPA priorities were included in agreements and that agreed upon priorities were completed, (2) involving the public in establishing priorities, (3) including applicable Core Performance Measures, and (4) accumulating data for reporting on results.

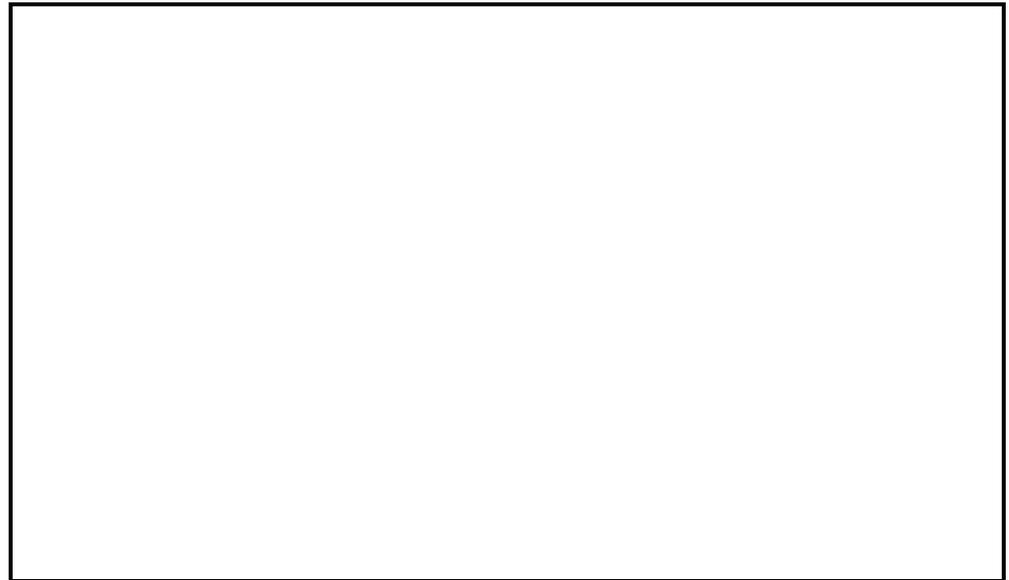
Committee on Integrity and Management Improvement

The Committee on Integrity and Management Improvement (CIMI) was established by EPA Order 1130.1, dated August 9, 1984, to coordinate the Agency's effort to minimize the opportunities for fraud, waste and mismanagement in EPA programs and activities, and to advise the Administrator on policies to improve the efficiency and effectiveness of the Agency. CIMI strives to continually enhance employee awareness and understanding of various Agency policies and procedures and to improve the economy, efficiency, and effectiveness of Agency operations. Chaired by the Inspector General, the Committee is comprised of senior managers from EPA program and regional offices.

Public Service Recognition Week

CIMI sponsored a series of events and exhibits in observance of Public Service Recognition Week to convey to EPA employees our appreciation for their remarkable contributions to protecting public health and the environment and their commitment to the highest standards of Government service. The highlight of these events was a special ceremony honoring the EPA work force, at which Deputy Administrator Peter Robertson presented the "EPA Employee Recognition Award" to 28 employees from 11 Headquarters offices whose outstanding community service has helped to foster a positive image of Federal employees. Two group awards were also presented. Inspector General Nikki L. Tinsley hosted the ceremony; several EPA employees provided musical entertainment; and Norman O. Taylor, Director of the Combined Federal Campaign of the National Capital Area, provided the keynote address. Following the ceremony, the Administrator and the Inspector General hosted a reception for the 1999 awardees and ceremony attendees.

OIG Employee Honored



Jeff Hart, Audit Manager for the Denver Office, was honored on June 23, 1999 at the Association of Government Accountants (AGA) Professional Development Conference in New Orleans. AGA National President Tom Roslevitz presented Jeff with an award for exceptional service as AGA's Vice President of the Southwestern Region.

Review of Region 5 Laboratory Operations

During Fiscal Year 1998, Region 5 program officials identified questionable data being produced by their Central Regional Laboratory (CRL). Upon further inspection by the Region it was determined that data quality and chain of custody were compromised when CRL chemists circumvented the lab's standard operating procedures. As a result, data were provided to the regional program offices for decision making and enforcement actions that were of unknown quality and indefensible. In September 1998, the Inspector General's Office of Investigations (OIG, OI) was informed of the alleged improprieties regarding the laboratory data. OI initiated a criminal investigation and recommended that the laboratory cease accepting samples until an independent management and technical audit could be performed at the laboratory. In September 1998, the Region 5 Quality Assurance Core Group initiated a Management Systems Review (MSR) of the laboratory's operations. This review was undertaken, in part, to address the concerns raised regarding the data produced by the lab. The MSR identified 23 areas of concern grouped into 6 major finding areas: 1) need to strengthen management of the lab, 2) a need for improved communication, 3) a need to strengthen the lab's policies and procedures, 4) a lack of understanding of quality assurance and quality control, 5) problems with chain of custody as well as sampling and data handling problems, and 6) a need for improved training for lab personnel. To address these findings, laboratory management developed an action plan which included 41 actions to correct the problems identified.

In May 1999, Region 5 requested that the OIG, Office of Audit conduct an audit of the CRL to determine the status, and to the extent possible, the effectiveness, of the corrective actions taken to address the findings from the MSR, and to identify actions the laboratory might take to help restore the integrity of the lab. Our review showed that while some actions have been completed, many had either not been addressed or did not adequately address the findings from the MSR. Of the 41 corrective actions planned, about 30 remain to be completed. As a result, many of the findings identified by the MSR continue to exist and the quality of the results that the lab is producing remain questionable.

In September 1999, the OIG, Office of Audit briefed the Regional Administrator and provided recommendations to help the Region address the remaining corrective actions from the MSR and help to restore the integrity of the lab. The Region agreed with the recommendations and on October 12, 1999, provided a written plan outlining the actions ongoing and planned to address the recommendations.



Section 3-Audit Report Resolution

Status Report on Perpetual Inventory of Reports in Resolution Process for Semiannual Period Ending September 30, 1999

Report Category	No. of Rpts	Report Issuance (Dollar Value in Thousands)		Report Resolution Costs Sustained (Dollar Value in Thousands)	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by April 1, 1999	119	\$153,871	\$1,658		
B. Which were issued during the reporting period	252	11,168	95		
C. Which were issued during the reporting period that required no resolution	144	0	0		
Subtotals (A + B - C)	227	165,039	1,753		
D. For which a management decision was made during the reporting period	62	67,511	1,658	\$24,415	\$1,658
E. For which no management decision was made by March 31,1998	165	97,528	95		
Reports for which no management decision was made within six months of issuance	47	84,648	0		

As part of the OIG reinvention initiative, the OIG was in the process of switching to a new Performance and Accountability System during this reporting period. Until the system is thoroughly tested, some of the statistics reported may not represent the final results of our operations as of the time the report was printed.

**Status of Management
Decisions on IG Reports**

This section presents statistical information as required by the Inspector General Act Amendments of 1988 on the status of EPA management decisions on reports issued by the OIG involving monetary recommendations.

As presented, information contained in Tables 1 and 2 cannot be used to assess results of reviews performed or controlled by this office. Many of the reports were prepared by other Federal auditors or independent public accountants. EPA OIG staff do not manage or control such assignments. Auditees frequently provide additional documentation to support the allowability of such costs subsequent to report issuance. We expect that a high proportion of unsupported costs may not be sustained.

Table 1 -- Inspector General Issued Reports With Questioned Costs for Semiannual Period Ending September 30, 1999

Report Category	Number of Reports	Questioned Costs* (Dollar Value in Thousands)	Unsupported Costs (Dollar Value in Thousands)
A. For which no management decision was made by March 31, 1999 **	62	\$153,871	\$64,449
B. New reports issued during period	33	11,168	3,063
Subtotals (A + B)	95	165,039	67,512
C. For which a management decision was made during the reporting period	39	67,511	40,141
(i) Dollar value of disallowed costs	31	24,415	708
(ii) Dollar value of costs not disallowed	18	43,096	39,433
D. For which no management decision was made by September 30, 1999	56	97,528	27,371
Reports for which no management decision was made within six months of issuance	30	84,648	21,412

* Questioned costs include the unsupported costs.

** As part of the OIG reinvention initiative, the OIG was in the process of switching to a new Performance and Accountability System during this reporting period. Until the system is thoroughly tested, some of the statistics reported may not represent the final results of our operations as of the time the report was printed.

Table 2 -- Inspector General Issued Reports With Recommendations That Funds Be Put To Better Use for Semiannual Period Ending September 30, 1999

Report Category	Number of Reports	Dollar Value (In Thousands)
A. For which no management decision was made by April 1, 1999	1	\$1,658
B. Which were issued during the reporting period	1	95
Subtotals (A + B)	2	1,753
C. For which a management decision was made during the reporting period	1	1,658
(i) Dollar value of recommendations from reports that were agreed to by management	0	0
(ii) Dollar value of recommendations from reports that were not agreed to by management	0	0
(iii) Dollar value of non-awards or unsuccessful bidders	1	1,658
D. For which no management decision was made by March 31, 1999	1	95
Reports for which no management decision was made within six months of issuance	0	0

* As part of the OIG reinvention initiative, the OIG was in the process of switching to a new Performance and Accountability System during this reporting period. Until the system is thoroughly tested, some of the statistics reported may not represent the final results of our operations as of the time the report was printed.

Audits With No Final Action As Of 9/30/99-Which are over 365 Days Past OIG Report Issuance Date		
Audits	Total	Percentage
Programs	44	21.5
Assistance Agreements	113	55.1
Contract Audits	36	17.6
Single Audits	7	3.4
Financial Statement Audits	5	2.4
TOTAL	205	100

Summary of Investigative Results

Summary Of Investigative Activities

Pending Investigations as of March 31, 1999	204
New Investigations Opened This Period	34
Investigations Closed This Period	46
Pending Investigations as of September 30, 1999	192

Prosecutive and Administrative Actions

In this period, investigative efforts resulted in seven convictions and Fifteen indictments.* Fines and recoveries, including those associated with civil actions, amounted to \$159,302. Sixteen administrative actions were taken as a result of investigations.

Resignations	3
Terminations	1
Suspensions & Debarments	5
Compliance Agreement	4
Other	3
TOTAL	16

* Does not include indictments obtained in cases in which we provided investigative assistance.

Profiles of Pending Investigations by Type

General EPA Programs
Total Cases = 123

Superfund
Total Cases = 69