



# 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.