



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

Region 2 Needs to Improve Its Internal Processes Over Puerto Rico's Assistance Agreements

Report No. 17-P-0402

September 25, 2017



Report Contributors:

Michael D. Davis
Madhu Dev
Kevin Haas
Cara Lindsey
Gloria Taylor-Upshaw

Abbreviations

CCSJBE	Corporation for the Conservation of the San Juan Bay Estuary
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
EQB	Puerto Rico Environmental Quality Board
FY	Fiscal Year
GPI	Grants Policy Issuance
GS	Grant Management Specialist
IGMS	Integrated Grants Management System
OGD	Office of Grants and Debarments
OIG	Office of Inspector General
PO	Project Officer
SRF	State Revolving Fund

Cover photo: The Region 2 Caribbean Environmental Protection Division office building in Guaynabo, Puerto Rico. (EPA OIG photo)

Are you aware of fraud, waste or abuse in an EPA program?

EPA Inspector General Hotline
1200 Pennsylvania Avenue, NW (2431T)
Washington, DC 20460
(888) 546-8740
(202) 566-2599 (fax)
OIG_Hotline@epa.gov

Learn more about our [OIG Hotline](#).

EPA Office of Inspector General
1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
www.epa.gov/oig

Subscribe to our [Email Updates](#)
Follow us on Twitter [@EPAoig](#)
Send us your [Project Suggestions](#)



At a Glance

Why We Did This Review

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) established controls and processes for overseeing and managing Puerto Rico's assistance agreements to protect human health and the environment.

Assistance agreements—which include grants and cooperative agreements—are mechanisms used to transfer funds from the EPA to another entity to serve a public purpose. The EPA provides recipients in the Commonwealth of Puerto Rico with assistance agreements for environmental programs, such as air pollution control and hazardous waste management. Region 2 oversees the EPA's assistance agreements with Puerto Rico.

This report addresses the following:

- *Operating efficiently and effectively.*

Send all inquiries to our public affairs office at (202) 566-2391 or visit www.epa.gov/oiq.

Listing of [OIG reports](#).

Region 2 Needs to Improve Its Internal Processes Over Puerto Rico's Assistance Agreements

What We Found

Region 2 needs to improve its internal processes over Puerto Rico's assistance agreements in the following areas:

- *Confirmations that the Puerto Rico Environmental Quality Board's equipment was used as intended.*

We found that Region 2 Project Officers did not confirm the board's grant equipment was used in accordance with approved work plans.

- *Documents and information in grant files that support assistance agreement award decisions.* Region 2 did not always include complete, accurate or hard copy documents in the grant files.
- *Support for car allowance fringe benefit costs.* Region 2 did not know whether the grant recipient of two cooperative agreements maintained supporting documentation for its car allowance fringe benefit costs.

Region 2 may have inefficiently used over \$217,000 in taxpayer funds by not confirming equipment was used as intended or obtaining support for requested fringe benefit costs.

As a result of these issues, the EPA may have inefficiently used taxpayer funds for Environmental Quality Board equipment purchases, may need additional support for grant award decisions in the official hard copy grant files, and may not have evidence that taxpayer funds have been properly used under two cooperative agreements.

Recommendations and Planned Corrective Actions

We made four recommendations to the Regional Administrator, Region 2, regarding the EPA's internal processes over Puerto Rico's assistance agreements:

- Train Project Officers to follow grant guidance and to confirm equipment purchases and use during the post-award phase.
- Require Project Officers and Grant Management Specialists to take specific, annual training on grant file management.
- Require Project Officers to take specific, annual training on conducting baseline monitoring reviews.
- Determine support for car allowance fringe benefit costs.

Region 2 agreed with the four recommendations and provided appropriate corrective actions.



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

THE INSPECTOR GENERAL

September 25, 2017

MEMORANDUM

SUBJECT: Region 2 Needs to Improve Its Internal Processes Over Puerto Rico's
Assistance Agreements
Report No. 17-P-0402

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Catherine McCabe, Acting Regional Administrator
Region 2

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY17-0001. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

Action Required

The agency provided corrective actions for addressing the recommendations with milestone dates. Therefore, a response to the final report is not required. Should you choose to provide a final response, we will post your response on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at www.epa.gov/oig.

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background.....	1
	Responsible Offices	2
	Scope and Methodology	3
2	Region 2 Did Not Confirm EQB Used Equipment as Outlined in Work Plans.....	5
	Agency Policy Outlines Equipment Requirements.....	5
	POs Did Not Confirm EQB’s Equipment Was Used as Intended.....	6
	PO Reviews Were Limited to Specific Data.....	7
	POs Are Unfamiliar With EQB’s Equipment	8
	Recommendation.....	8
	Agency Response and OIG Evaluation	8
3	Region 2 Needs to Improve Internal Documentation for Puerto Rico Assistance Agreements	10
	EPA Has Established Grant Oversight Requirements	10
	POs and GSs Need to Improve Grant Award Documentation	11
	Documentation Not in Grant Files Due to Electronic Processes	13
	Official Files Should Be Maintained to Support Grant Award Decisions	13
	Recommendations	14
	Agency Response and OIG Evaluation	14
4	EPA Needs to Assess Fringe Benefit Costs for Car Allowances	15
	Federal Procedures Specify Requirements for Fringe Benefits	15
	Region 2 Paid CCSJBE for Car Allowances as Fringe Benefits	16
	CCSJBE Should Have Support for Car Allowance Fringe Benefit Costs	17
	Region 2 Should Confirm Costs	18
	Recommendation.....	18
	Agency Response and OIG Evaluation	18
	Status of Recommendations and Potential Monetary Benefits	19

Appendices

A	Assistance Agreements Selected for Review	20
B	Agency Response and OIG Evaluation	21
C	Distribution	30

Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) conducted an audit of U.S. Environmental Protection Agency (EPA) Region 2's oversight of Puerto Rico's assistance agreements. Our objective was to determine whether the EPA established controls and processes for overseeing and managing Puerto Rico's assistance agreements to protect human health and the environment.

Background

According to EPA Order 5700.1, *Policy for Distinguishing Between Assistance and Acquisition*, issued on March 22, 1994, the EPA is authorized through various statutes to carry out specific environmental activities. These statutes also specify whether the EPA can provide outside parties with financial assistance—for example, with assistance agreements—to accomplish these activities. The purpose of awarding assistance agreements is expressly for public benefit.

The EPA funds assistance agreements as either grants or cooperative agreements. The only distinction between a grant and a cooperative agreement is that a cooperative agreement involves a greater degree of federal involvement. Region 2 stated that “EPA assistance agreement programs are characterized as competitive or non-competitive, discretionary or non-discretionary and/or considered a Continuing Environmental Program or non-Continuing Environmental Program (i.e. project grants, fellowships).”

Funding sources for EPA assistance agreements can be divided into two categories: state revolving funds (SRFs) or non-SRFs. An SRF is a specific grant program authorized by statute and is a partnership between a federal agency and a state. It provides a permanent, independent source of low-cost financing for infrastructure projects. A non-SRF assistance agreement is any assistance agreement that is not funded by an SRF. Non-SRF agreements have been awarded to recipients in the Commonwealth of Puerto Rico for environmental programs, such as air pollution control, pesticides enforcement and hazardous waste management programs. The EPA has awarded non-SRF assistance agreements to a variety of entities in Puerto Rico, including the Puerto Rico Department of Agriculture; the Metropolitan Bus Authority; local entities and municipalities; and the Puerto Rico Environmental Quality Board (EQB), which has the primary function of protecting and preserving the environment in Puerto Rico.

In 2001, however, the EPA classified EQB as a high-risk grant recipient. According to 40 CFR Part 31 (1999), *Uniform Administrative Requirements for*

Grants and Cooperative Agreements to State and Local Governments,¹ a grant recipient may be considered high risk for various reasons, including a history of unsatisfactory performance or nonconformance to the terms and conditions of previous awards. Special conditions or restrictions placed upon a high-risk recipient may include payment on a reimbursement basis, additional project monitoring or the establishment of additional prior approvals.

The high-risk designation letter that the EPA sent to EQB stated that, although the agency had provided assistance and resources to help EQB address deficiencies in its grants management and financial management systems, EQB was without an accounting system. The EPA also identified the following additional concerns:

- Lack of a timely procurement program.
- Inappropriate charging of time due to the lack of a time allocation plan.
- Ineffective property management system.

As a result of this high-risk designation, EQB implemented a multiyear corrective action plan, which it completed in 2014. From May 5 to May 9, 2014, Region 2 conducted an on-site review of EQB systems, files and operations. On May 12, 2014, Region 2 removed EQB's high-risk status, citing no instances of significant noncompliance. Region 2 stated that its staff have continued to monitor EQB since lifting the high-risk designation.



EQB's office in San Juan, Puerto Rico. (EPA OIG photo)

Responsible Offices

The Region 2 Caribbean Environmental Protection Division oversees the Puerto Rico assistance agreements with the EPA. This division serves as the primary liaison for environmental issues and problems with the governments and regulated industries and authorities of Puerto Rico and the territory of the U.S. Virgin Islands. The Caribbean Environmental Protection Division conducts inspections, identifies violations, recommends enforcement actions, and plans and coordinates activities necessary to implement regional programs in Puerto Rico and the U.S. Virgin Islands.

The Region 2 Office of Policy and Management, Grants and Audit Management Branch, also has responsibilities regarding assistance agreements with Puerto

¹ The grant regulations at 40 CFR Part 31 were superseded by two other regulations: (1) the Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, codified at 2 CFR Part 200, which the EPA adopted in December 2014, and (2) supplemental grant regulations codified at 2 CFR Part 1500. Federal regulations at 2 CFR §§ 200.205 and 200.207 contain the relevant provisions pertaining to high-risk grant recipients.

Rico. The branch is responsible for the administrative review of awards, preparation of awards, administrative post-award management, development of grant-specific administrative terms and conditions, approval of grant payment requests for recipients on reimbursement, closeout of awards, and administrative oversight of all grants and cooperative agreements in Region 2. The branch also provides support, as needed, to the regional program offices, which perform similar functions from the program perspective.

Scope and Methodology

We conducted this audit from October 19, 2016, to July 18, 2017, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We focused our audit on non-SRF assistance agreements with Puerto Rico. To answer our objective, we reviewed the following relevant laws, procedures and policies related to assistance agreements:

- 1) Federal Regulation, 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 2016.
- 2) Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016.
- 3) EPA Grants Policy Issuance (GPI), GPI-02-02, *Guidance: Equipment Acquired Under Assistance Agreements*, March 2, 2002.
- 4) EPA, *Assistance Agreement Almanac*, February 26, 2016.
- 5) EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, September 24, 2007.

We interviewed the Region 2 Project Officers (POs), Grant Management Specialists (GSSs) and regional managers located in the New York and Puerto Rico offices to learn about their roles in regard to the assistance agreements. We also interviewed Puerto Rico Commonwealth personnel in the EQB, Department of Health, Puerto Rico Infrastructure Finance Authority, and Puerto Rico Aqueduct and Sewer Authority.

We obtained a universe of 133 Puerto Rico non-SRF assistance agreements that were active in fiscal year (FY) 2016 or closed in FY 2015. From this universe, we selected a sample of 23 assistance agreements and reviewed their supporting hard copy documentation. Appendix A of this report contains a summary of the 23 grants in our sample, which we selected based on the highest dollar amounts awarded and expended.

We also reviewed Region 2's electronic actions for some of the assistance agreements in our sample to verify actions taken but not documented in the hard copy files. We reviewed data in the EPA's Integrated Grants Management System (IGMS) and the EPA's financial system, Compass Data Warehouse. We also performed three site visits in Puerto Rico associated with three assistance agreements in our sample.

Chapter 2

Region 2 Did Not Confirm EQB Used Equipment as Outlined in Work Plans

Region 2 POs did not confirm that EQB used grant equipment, totaling over \$207,000, in accordance with approved work plans. The EPA's GPI-02-02 states that POs have a responsibility during the post-award phase to confirm that a grant recipient purchases and uses equipment according to the approved work plan. However, Region 2 POs conducted programmatic baseline reviews that were limited to specific data areas, which did not include confirming equipment was used as intended. POs need to be familiar with the use of equipment purchased under a grant to make a reasonable determination for future equipment requests and to confirm that taxpayer funds are being used in accordance with grant requirements.

Agency Policy Outlines Equipment Requirements

EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review, and Monitoring*, Section 5.1, "Programmatic Baseline," states that the PO is responsible for conducting programmatic baseline monitoring of each active award. Per this order, the following areas may be reviewed as part of programmatic baseline monitoring:

... receipt of progress reports, identifying areas of concern cited in the progress reports, whether expended and remaining funds are reasonable, whether previous concerns are (or are to be) remedied, whether proper Quality Assurance (QA) materials are approved, and whether all programmatic terms and conditions are met.

Furthermore, the EPA's GPI-02-02, *Guidance: Equipment Acquired Under Assistance Agreements*, Section 6, "Responsibilities," outlines that POs are responsible for confirming equipment was used as intended during the post-award phase:

The PO is responsible for confirming that recipient purchases the equipment within the time frame outlined in their milestones and uses the equipment for the purposes outlined in the work plan.

In addition, Section 5, "Disposition Options," of the EPA's GPI-02-02 states that the use of equipment purchased with federal funds is not limited to the time period or scope of that particular grant:

The recipient may keep the equipment and continue to use it on the project originally funded through the assistance agreement or on other federally funded projects whether or not the project or program continues to be supported by Federal funds.

POs Did Not Confirm EQB's Equipment Was Used as Intended

Region 2 POs did not confirm that EQB used equipment in accordance with the approved work plans. We found that the narratives in the approved work plans did not include justifications explaining the need for or use of the equipment requested under the grants. However, the budget packages submitted by EQB in the pre-award phase and approved by the EPA did contain a justification and intended use for the requested equipment.

EQB provided us with a list of equipment purchased with federal funds under the FY 2013 (Grant Number 00224313) and FY 2015 (Grant Number 00224315) Hazardous Waste Programs. The equipment list from EQB contained 15 items—13 computers, a printer and a vehicle—with a total federal cost of \$28,360. The equipment list specified the name, identification number and location of each item.

We performed a physical inventory of the items on EQB's equipment list. We noticed that EQB was not using five of the 13 computers purchased under Grant Number 00224313 (Figure 1); according to the purchase orders, these five computers cost a total of \$3,606. The EQB Program Manager explained that these computers were not being used because staff had left their positions. The manager was not sure how long the computers had been out of use.

Figure 1: Unused EQB computers purchased with EPA grant funds



Left: A computer not in use in the EQB office. Right: An unused computer placed on a filing cabinet in a locked office. These computers were purchased with funds from Grant Number 00224313. (EPA OIG photos)

Also, we observed that additional computer purchases were made under the subsequent FY 2016 grant for the same Hazardous Waste Program. The PO was not aware of the disposition of the existing equipment prior to approving the purchase of new computers on the subsequent grant. In addition, the grant files

did not document any PO reviews confirming the use of equipment in accordance with grant policy. The new computers may not have been needed. Since many grants are renewed annually, OIG believes POs should be aware whether equipment purchased under grants is being used as outlined by the grant work plans.

Additional Equipment Purchased Without Confirmation of Use as Intended

We identified a total of five EQB grants from our selected samples that included equipment purchases in the approved grant budgets. Table 1 lists the EQB grants that included equipment purchases, which totaled over \$207,000. However, the POs did not confirm, in the post-award phase, whether the equipment was being used for the purposes outlined in the approved work plans.

Table 1: Approved budgeted equipment costs

Grant number	Project title	Grant status	Federal portion of grant-budgeted equipment costs
00207815	FY 2015 Air Pollution Control Program	Closed	\$4,063
00224313 ^a	FY 2013 Hazardous Waste Program	Closed	10,677
00224315	FY 2015 Hazardous Waste Program	Closed	20,250
99293412	FY 2012 Performance Partnership Grant	Open	116,208
99293413	FY 2013 Performance Partnership Grant	Open	56,000
Total budgeted equipment costs			\$207,198

Source: OIG analysis of EPA grant data.

^a The five computers identified as not in use during a site visit were purchased under this grant.

PO Reviews Were Limited to Specific Data

Region 2 stated that an equipment review is not required for EQB since it is no longer considered a high-risk recipient. Region 2 also provided this statement:

POs are not responsible for reviewing existing inventories before approving equipment purchases. Rather, POs are required to use their best professional judgment and considerations such as knowledge of the type of equipment, consistency with the recipient’s procurement system, market research/market value, or a prudent person test to assess the reasonableness and necessity of proposed equipment purchases. Particularly for state governments in continuing environmental grant programs, it is expected that there will be turnover in equipment, especially computers, and that every year a fraction of the existing inventory will be replaced.

Although there is no requirement to review a grant recipient's equipment inventory before approving equipment purchases, the EPA's GPI-02-02 does require POs to confirm the use of equipment during the post-award phase. However, we observed that the POs limited their reviews during the post-award phase to specific data areas, which did not include equipment purchases or whether equipment was used as outlined in work plans.

POs Are Unfamiliar With EQB's Equipment

Region 2 POs did not properly oversee more than \$207,000 in taxpayer funds because they did not adhere to established agency policies to confirm that EQB was using equipment purchased with grant funds as outlined in approved work plans. Additionally, because POs limited their reviews to specific data areas in the pre-award phase, Region 2 could not determine whether equipment was actually purchased per the approved budget and used per the grant guidelines.

POs are not familiar with post-award equipment purchases made with grant funds. Since many grants are renewed annually, POs need to be able to make a reasonable determination as to (1) whether the equipment requests made by grant recipients during the pre-award phase and approved by the EPA were actually purchased and (2) whether the equipment purchased was being used in accordance with the grant policy. The POs could then confirm the efficient use of taxpayer funds. Additionally, POs should be able to determine whether the equipment already possessed by the recipients can continue to be used on other federally funded projects.

Recommendation

We recommend that the Regional Administrator, Region 2:

1. Train Project Officers to follow the EPA's Grants Policy Issuance-02-02 guidance, and require that programmatic baseline reviews include confirmation of equipment purchases and use during the post-award phase.

Agency Response and OIG Evaluation

The agency agreed with our recommendation and provided corrective actions with completion dates. Region 2 provided the OIG with technical comments along with its response to this report, including comments relevant to this chapter. We evaluated the region's comments and made changes to the chapter as appropriate. The complete agency response to the draft report is in Appendix B.

In response to Recommendation 1, the region stated that all POs "are required to take training as part of their certification, which includes refresher training triennially for equipment purchases and use during the post award phase." Region 2 therefore stated that this corrective action is complete. Also, the region

said that the Office of Grants and Debarments (OGD) will review and update the existing PO training module for guidance regarding equipment purchases by September 30, 2018. We consider the agency's planned corrective actions to satisfy the intent of the recommendation. This recommendation is resolved pending completion of the updated training.

Chapter 3

Region 2 Needs to Improve Internal Documentation for Puerto Rico Assistance Agreements

Region 2 needs to improve its internal documentation in support of Puerto Rico assistance agreements that protect human health and the environment. Specifically, Region 2 POs and GSs need to improve documentation in the following areas:

- PO and GS hard copy file documentation.
- PO programmatic baseline report information.
- GS comprehensive administrative review checklist responses.

The region stated that paper files are rarely used and that some documents may be completed electronically. According to the EPA's *Assistance Agreement Almanac*, however, official grant files include paper documents managed by GSs and POs. In addition, EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, states that POs and GSs are responsible for conducting programmatic and administrative baseline monitoring as part of the grants process.

Region 2 should improve its documentation to allow for an official audit trail of grant award decisions in one location. Also, an official hard copy file is needed to support the decisions made to protect human health and the environment should electronic systems not be available.

EPA Has Established Grant Oversight Requirements

The EPA's *Assistance Agreement Almanac* includes these applicable requirements:

- Section 1.3, "EPA File Documentation and Record Retention Requirements, Requirements for Grant Files," states that the official EPA files for executed grants should include paper copies of all grant-related documents kept by the grant management offices and the program offices. GSs and POs manage the documents. The EPA's IGMS, email and other similar electronic systems "do not currently meet the requirements for an electronic recordkeeping system." Therefore, electronic records from these systems "must be printed out and captured in a paper recordkeeping system." Grant files should include both official records and nonofficial copies of specified administrative records.
- Section 4.1, "GMO [Grant Management Officer] Review of the Funding Package," requires GSs to review and approve funding packages and to

use the comprehensive administrative review checklist to evaluate the funding packages. This section also requires GSs to complete separate cost review analyses to accompany the checklist.

EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review, and Monitoring*, Section 5.1, “Programmatic Baseline,” states that POs are responsible for conducting programmatic baseline monitoring of each active award. Section 5.2, “Administrative Baseline,” states that GSs are responsible for conducting administrative baseline monitoring of each active award.

POs and GSs Need to Improve Grant Award Documentation

Region 2 needs to improve its hard copy file documentation, the information it includes in programmatic baseline reports, and its responses in the comprehensive administrative review checklists.

Hard Copy Documents Were Not Included in Grant Files

Region 2 POs and GSs did not include all required documentation in the official hard copy grant files, which should contain grant-related documents kept by the grant management offices and the program offices. Region 2 PO and GS grant files were missing the programmatic and administrative baseline reports, comprehensive administrative review checklists, and other grant-related documents. We identified 14 grant files out of the 23 grant files sampled that had missing hard copy documents, as exemplified in Table 2. Although these documents were missing from the physical grant files, Region 2 staff were able to provide us with most of the documents from other sources, including electronic and personal files. (Documents that could not be provided even from other sources are bolded in Table 2.)

Table 2: Hard copy documents missing from PO and GS files

Grant number	PO or GS file	Grant status	Hard copy documents missing from official files ^a
00207811	PO	Closed	Programmatic baseline report.
00207812	PO	Closed	1) Final technical completion report. 2) Programmatic baseline report.
00213114	PO	Open	1) Approved work plan. 2) Communications with the grant recipient. ^a
00224311	PO	Closed	Final technical completion report.
00224313	GS	Closed	Closeout letter.
00224314	1) GS 2) PO	Closed	1) Administrative baseline report. 2) Final technical completion report.
00266308	PO	Closed	Final technical completion report.
96297112	PO	Open	Communications with the grant recipient. ^a

Grant number	PO or GS file	Grant status	Hard copy documents missing from official files ^a
97200701	1) GS 2) PO	Closed	1) Administrative baseline report. 2) Programmatic baseline report.
97210701	1,2) GS 3) PO	Closed	1) Administrative baseline report. 2) Final technical completion report. 3) Programmatic baseline report.
97235209	GS	Closed	White House notification letter. ^a
99206921	PO	Open	1) Approved work plan. 2) Programmatic baseline report.
99206922	PO	Open	Approved work plan.
99293412	GS	Open	Comprehensive administrative review checklist.

Source: OIG analysis of EPA grant data.

^a The agency was unable to provide the documents in bold to the OIG.

PO Programmatic Baseline Reports and Closeout Certifications Were Inaccurate

Region 2 POs did not always maintain accurate reports for the Puerto Rico assistance agreements.

We identified inaccuracies in the programmatic baseline reports for three grants out of the 23 grants sampled: Grant Numbers 00207816, 00224314 and 00224315. In the baseline report for Grant Number 00207816, the PO noted that the recipient was submitting quarterly payment requests and making reasonable drawdowns. However, when we asked the PO to explain how this information was verified, we were told that the PO does not have access to the financial database system and has not been trained to check the drawdowns. Similarly, in the baseline reports for Grant Numbers 00224314 and 00224315, it was indicated that the PO verified that the recipient was submitting quarterly payment requests; however, when we asked how the PO verified this, the PO stated that those notations were typographical errors and that the recipient submissions were not verified.

In addition, the PO closeout certifications were inaccurate for Grant Numbers 00207815 and 00224315. For both grants, we observed that the PO noted “not applicable” in response to a question regarding equipment purchases. However, we noted that equipment was included in the approved revised budgets.

GS Administrative Review Checklist Responses Were Inaccurate and Incomplete

Region 2 GSs maintained inaccurate and incomplete responses to questions in the comprehensive administrative review checklists for Puerto Rico assistance agreements. Region 2 explained that the comprehensive administrative review

checklist is a tool to properly review applications and funding packages and to assist GSs in identifying errors.

We found that the comprehensive administrative review checklists had inaccurate and incomplete responses in seven of the 23 grant files sampled; however, these issues did not have an impact on the related assistance agreements. For example:

- For Grant Number 00207817, the answers to questions 4 and 4a in the “Eligibility and Pre-Award Capabilities Review” section (Section 2) noted inaccurately that there were exclusions in the System for Award Management.
- For Grant Numbers 99293413 and 00213114, the GS did not complete the “Funding Recommendation” section (Section 6).

Documentation Not in Grant Files Due to Electronic Processes

Region 2 POs and GSs did not always maintain hard copy files for assistance agreements. The region stated that the vast majority of documents may be completed electronically, including grant applications and post-award documents. However, IGMS currently does not meet the EPA’s requirements to qualify as an electronic record-keeping system. In addition, a document was missing from the physical grant file because the GS kept it on a computer hard drive. Some GSs stated that not including these documents in the hard copy grant files may have been an oversight, while one PO stated that, because a document was readily accessible electronically via IGMS, a hard copy was not printed.

Region 2 stated that the majority, if not all, of its grant work is handled electronically. The region also stated that its staff print and file documents in the official hard copy files but that paper files are rarely used, except to retrieve information on historical grants that may not be readily available electronically.

Region 2 stated that, in May 2017, its grants office conducted training sessions on file management with the region’s GSs and POs. The grants office has also stated that it updated regional guidance on its intranet site.

Official Files Should Be Maintained to Support Grant Award Decisions

Region 2 should improve its documentation for Puerto Rico assistance agreements to establish a complete, accurate and centrally located audit trail of grant award decisions in support of the EPA’s mission to protect human health and the environment. Specifically, improvement is needed in the retention of hard copy file documentation and in the accuracy and completeness of programmatic baseline reports and comprehensive administrative review checklist responses. Also, official hard copy files are needed to make sure that documentation is readily available should electronic systems fail.

Region 2 stated that the agency is currently developing an agencywide web-based grants system. We believe an automated grants system that qualifies as an electronic record-keeping system would benefit the region by eliminating the need to print out documents for the physical grant files.

Recommendations

We recommend that the Regional Administrator, Region 2:

2. Require Project Officers and Grant Management Specialists to take specific, annual training on grant file management.
3. Require Project Officers to take specific, annual training on conducting baseline monitoring reviews, to include reviews of the EPA's financial system for drawdown information.

Agency Response and OIG Evaluation

Region 2 agreed with our recommendations and provided corrective actions with completion dates. The region provided the OIG with technical comments along with its response to the draft report. The complete agency response to the draft report is in Appendix B.

For Recommendation 2, the Region 2 stated that it maintains an online "File Content Management Training," which is available to POs, GSs and managers. Region 2 stated that it completed this training in May 2017. Additionally, the region said that an announcement of this training will be transmitted annually to staff by March 31, 2018. We consider the agency's corrective actions satisfied the intent of the recommendation. This recommendation is resolved pending completion of the announcement of the FY 2018 training.

For Recommendation 3, the agency noted that OGD will review the available programmatic baseline monitoring training and will update the content as appropriate by September 30, 2018. We consider the agency's planned corrective action to satisfy the intent of the recommendation. This recommendation is resolved pending completion of the corrective action.

Chapter 4

EPA Needs to Assess Fringe Benefit Costs for Car Allowances

The EPA needs to determine whether a Puerto Rico nonprofit has support for the requested fringe benefit costs related to car allowances under two cooperative agreements. Federal regulations state that costs related to personal use of vehicles (including transportation to and from work) are unallowable as fringe benefits, while vehicle costs related to work conducted under federal grants are allowable. The PO for these cooperative agreements stated that the grant recipient's car use was not monitored and that the grant recipient did not maintain supporting documentation differentiating the personal and work use of vehicles. As a result of not having the required supporting documentation, the EPA should confirm that the estimated \$10,000 in taxpayer funds used for this fringe benefit was proper and allowable.

Federal Procedures Specify Requirements for Fringe Benefits

Federal regulations at 2 CFR § 200.431(a), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, define fringe benefits:

Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity.

However, 2 CFR § 200.431(f) clarifies that personal use of vehicles is unallowable as a fringe benefit:

[The] portion of automobile costs furnished by the entity that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect [Facilities and Administration] costs regardless of whether the cost is reported as taxable income to the employees.

In compliance with federal standards, the Corporation for the Conservation of the San Juan Bay Estuary (CCSJBE)—a nonprofit located in Puerto Rico that has

been awarded cooperative agreements by the EPA—created a cost allocation methodology, which was approved by the EPA in April 2016. The methodology has the following objectives:

- Meet regulatory and [Office of Management and Budget] requirements.
- Accurately capture personnel time, related costs and other expenses to maximize reimbursement.
- Provide a mechanism to allow employees to charge time and other expenses to multiple programs or grants as necessary that is workable in the CCSJBE environment.

In addition, Section 5.13 of CCSJBE’s cost allocation methodology states, “Cell Phone and Car Allowance expenses are budgeted in the proposals and only authorized for approved allowable and allocable expenditures.”

Region 2 Paid CCSJBE for Car Allowances as Fringe Benefits

Under two cooperative agreements with CCSJBE, the EPA awarded car allowances as fringe benefits for the Executive Director and Volunteer/Outreach Coordinator in FY 2016 and FY 2017.

The EPA awarded CCSJBE two cooperative agreements—Grant Numbers 99206921 and 99206922—to implement projects and programs included in the San Juan Bay Estuary Comprehensive Conservation and Management Plan. According to the

award documents, these projects and programs were intended to “improve the water and sediment quality of the [San Juan Bay Estuary] to ensure its suitability for fishing and swimming and to promote other compatible recreational and commercial activities.”

The PO informed us that, in FY 2016 under Grant Number 99206921, CCSJBE claimed \$7,005 for car allowance fringe benefits for the Executive Director and Volunteer/Outreach Coordinator. In addition, as of March 29, 2017, CCSJBE claimed \$3,974 in FY 2017 for the car allowance fringe benefits under Grant Number 99206922. The PO stated that the costs, estimated at over \$10,000, were not monitored by the EPA to determine if they related to personal or work use.



A project to restore this lagoon is included in the San Juan Bay Estuary Comprehensive Conservation and Management Plan. (EPA OIG photo)

CCSJBE Should Have Support for Car Allowance Fringe Benefit Costs

Region 2 stated that it is up to the recipient to maintain proper documentation to support charges under the cooperative agreement. In addition, Region 2 stated that it does not review supporting documentation for costs drawn down by grant recipients unless their assistance agreements are in reimbursement payment status. However, 2 CFR § 200.300 states the federal awarding agency must manage the federal award to confirm that federal funding is expended in full accordance with statutory and public policy requirements.



Another entrance to the Lagoon in Condado, San Juan. (EPA OIG photo)

The PO stated that the region did not monitor or review the car use (personal versus work) for the car allowances allocated under the cooperative agreements. The PO also stated that the car allowances were approved by the CCSJBE program as flat monthly allowances, since both the Volunteer/Outreach Coordinator and the Executive Director were expected to use their personal cars extensively to attend meetings and outreach activities outside the office.

During our fieldwork, the PO stated that the two CCSJBE employees receiving the car allowances did not maintain documentation regarding mileage and use because CCSJBE policies did not require this information. In June 2017, however, Region 2 provided the OIG with Revision 3 of the CCSJBE's *Personnel Policies Handbook*, issued in October 2015, which shows that CCSJBE's internal control procedures do require the official use of vehicles to be documented. Section 8.5 of this handbook specifically states that "employees who use their own automobiles for travel on authorized business will be reimbursed for mileage" but that "[t]ravel between home and office is not reimbursable." As a result, the handbook requires that employees submit "a detailed log of all approved mileage to your manager for reimbursement at least each quarter."

As an additional oversight control, Region 2 stated it conducted advanced monitoring and transaction testing for CCSJBE and found support for the charges requested in its drawdowns. However, costs associated with fringe benefits were not included in the monitoring. Region 2 said it has followed up with CCSJBE regarding the fringe benefit costs:

[T]o determine the correct amount associated with the vehicle use, if documentation can be produced to support the costs, and has already recommended some form of use log be developed and implemented immediately for the Executive Director and Public

Affairs Director prior to requesting any additional funds for such costs from EPA if one is not currently used.

Region 2 Should Confirm Costs

Region 2 should confirm that the use of taxpayer funds—estimated at over \$10,000—for fringe benefits for car allowances was proper. Region 2 should determine whether CCSJBE has documentation to support its requests for these costs under the FY 2016 and FY 2017 cooperative agreements.

The PO stated that Region 2 did not monitor the grant recipient's car use, and Region 2 stated that it is up to the recipient to maintain proper documentation to support charges under the cooperative agreement. Region 2 has requested documentation from CCSJBE and stated that it will “pursue the appropriate remedy based on the supporting documentation received from the recipient.”

Recommendation

We recommend that the Regional Administrator, Region 2:

4. Determine whether the cooperative agreements under Grant Numbers 99206921 and 99206922 have the proper support for the fringe benefit costs requested for car allowances.

Agency Response and OIG Evaluation

Region 2 concurred with our recommendation and provided a corrective action with a completion date. The region also provided the OIG with technical comments along with its response to the draft report. The complete agency response to the draft report is in Appendix B.

In response to Recommendation 4, Region 2 stated that it “will make the appropriate determination of support” for the requested car allowance fringe benefit costs and will take necessary actions by March 31, 2018. We consider the agency's planned corrective action to satisfy the intent of the recommendation. This recommendation is resolved pending completion of the proposed corrective action.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	8	Train Project Officers to follow the EPA's Grants Policy Issuance-02-02 guidance, and require that programmatic baseline reviews include confirmation of equipment purchases and use during the post-award phase.	R	Regional Administrator, Region 2	9/30/18	\$207
2	14	Require Project Officers and Grant Management Specialists to take specific, annual training on grant file management.	R	Regional Administrator, Region 2	3/31/18	
3	14	Require Project Officers to take specific, annual training on conducting baseline monitoring reviews, to include reviews of the EPA's financial system for drawdown information.	R	Regional Administrator, Region 2	9/30/18	
4	18	Determine whether the cooperative agreements under Grant Numbers 99206921 and 99206922 have the proper support for the fringe benefit costs requested for car allowances.	R	Regional Administrator, Region 2	3/31/18	\$10

¹ C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.

Assistance Agreements Selected for Review

Grant number	Project title	EPA award amount
<u>Open Grants</u>		
99293412-2	PREQB Performance Partnership Grant (PPG) '12	\$4,159,660
99293413-5	PREQB PPG '13	4,007,952
97235209-1	Puerto Rico Aqueduct and Sewer Authority FY 05 Special Appropriation	3,849,000
97285910-2	FY '10 PREQB Water Quality Management Planning Grant	1,342,616
00207817-0	Air Pollution Control Program	977,496
00207816-1	Air Pollution Control Program	977,494
00224314-0	FY 14 Hazardous Waste Program	889,862
99206922-0	FY 2016 San Juan Bay Estuary Program	770,000
00224315-1	Hazardous Waste Management Program '15	706,446
99206921-0	FY 2016 San Juan Bay Estuary Program	684,608
00207815-0	Air Pollution Control Program	675,000
96297112-4	FY 14 EQB State Response 128(a) Program	409,079
96274100-0	Multi-Purpose Grant Program	269,175
00213114-3	FY 14 Public Water System Supervision Program	164,837
<u>Closed Grants</u>		
99293411-0	2011 PPG	2,473,883
00224311-2	Hazardous Waste Program FY11	1,110,095
00224313-1	FY13 Hazardous Waste Management Program	830,140
00266308-1	PREQB- Voluntary Cleanup Program	826,507
00224312-1	Hazardous Waste Program	675,000
00207812-0	Air Pollution Control Program FFY2012	612,093
00207811-0	FFY 2011 Air Pollution Control Program	604,394
97200701-0	PREQB PM 2.5 FY-2011/2012	371,056
97210701-0	PREQB FY-2009-2010 PM 2.5	344,048

Source: OIG-generated table from EPA grant data.

Agency Response and OIG Evaluation



UNITED STATES ENVIRONMENTAL PROTECTION
AGENCY - REGION II

290 BROADWAY

NEW YORK, NEW YORK 10007-1866

AUG 17 2017

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report, Project No. FY-17-0001, "Region 2 Needs to Improve its Internal Processes Over Puerto Rico's Assistance Agreements," dated July 18, 2017

FROM: Catherine R. McCabe
Acting Regional Administrator

TO: Kevin Christensen
Assistant Inspector General for Audit
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the Agency's overall position, along with its position on each of the report recommendations. EPA's Office of Grants and Debarment (OGD) also provided input for this response. For those report recommendations with which the Agency agrees, we have provided corrective actions and estimated completion dates. For your consideration, we have included a Technical Comments Attachment to supplement this response.

AGENCY'S OVERALL POSITION

Region 2 generally agrees with the four recommendations provided in the report and has begun to implement appropriate corrective actions. However, while we agree to determine support for the fringe costs as stated in Recommendation Number 4, we request that the finding leading to that recommendation be removed. Please refer to the "Technical Comments Attachment" for a detailed description of our position on the OIG's analysis of the Grant Policy (GPI) 02-02 cited throughout the report and the resulting conclusions in addition to other technical comments.

AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1	Train Project Officers to follow the EPA's Grants Policy Issuance GPI-02-02 guidance, and require that programmatic baseline reviews include confirmation of equipment purchases and use during the post-award phase.	1.1 All Agency Project Officers are required to take training as part of their certification, which includes refresher training triennially and for equipment purchases and use during the post award phase. 1.2 OGD will review the existing Project Officer Training module regarding guidance for equipment purchases and will update as appropriate.	Complete 4 th Quarter FY 2018
2	Require Project Officers and Grant Management Specialists to take specific, annual training on grant file management	2.1 Region 2 maintains its File Content Management Training online and available to Project Officers, Grants Specialists and Managers. Additionally, the training provides resources, such as the grant file organization structure. Region 2 updated and delivered this training to staff in May 2017. 2.2 An annual announcement of the above training will be transmitted to staff.	Completed 3 rd Quarter FY2017 2 nd Quarter FY 2018
3	Require Project Officers to take specific, annual training on conducting baseline monitoring reviews, to include reviews of the EPA's financial system for drawdown information.	3.1 OGD will review available training for Programmatic Baseline Monitoring and will update the content as appropriate.	4 th Quarter 2018
4	Determine whether the cooperative agreements under Grant Numbers 99206921 and 99206922 have the proper support for the fringe benefit costs requested for car allowances.	4.1 Region 2 will make the appropriate determination of support for the costs and take necessary action.	2 nd Quarter FY2018

CONTACT INFORMATION

If you have any questions regarding this response, please contact John Svec, Audit Coordinator of the Grants and Audit Management Branch on (212) 637-3699 or Rudnell O'Neal, Acting Branch Chief of the Grants and Audit Management Branch on (212) 637-3427.

Attachments

cc: Michael D. Davis
Gloria Taylor-Upshaw
Rudnell O'Neal
Stephanie Montrallos
Carmen Guerrero
Jose Font

ATTACHMENT
TECHNICAL COMMENTS

Comments to specific sections to the Draft Response

At a Glance Section – Page 3

“What We Found” - The Report claims that R2 “needs to improve its internal processes over Puerto Rico’s assistance agreements” yet it does not cite any instances in which the Region made an improper award or took an improper action. No significant issues were identified.

Region 2 may have inefficiently used over \$207,000 in taxpayer funds by not confirming equipment use or obtaining support for requested fringe benefit costs.

We were unable to ascertain how the OIG came to this conclusion. The report cites \$3,606 of computer equipment the OIG believed was not reviewed properly and approximately \$10,000 of fringe benefit costs associated with vehicle usage believed to be unsupported. The \$207,000 cited here is the federal share of equipment costs in the grant approved budgets reviewed by the OIG, which may include other types of equipment in addition to the five computer equipment items identified in the report. This statement also implies that Region 2 was lax in its oversight role or did not follow EPA procedures. The report does not support that conclusion or implication and we respectfully request it

be reconsidered.

This section also states the following as an area needing improvement:

“*Supports car allowance fringe benefit costs.* Region 2 did not know whether the grant recipient of two cooperative agreements maintained supporting documentation for the car allowance fringe benefit costs.”

While we will follow up to determine support for the costs as recommended by the OIG, we request that the above finding be removed. This statement implies that the Region should have known whether the recipient had supporting documentation for its fringe benefit costs. We disagree that there is a finding as to the Region’s oversight or internal processes over Puerto Rico’s assistance agreements as it pertains to this issue. As a general matter, and as previously explained in our response the discussion draft, supporting documentation is reviewed only at the time of a post-award transaction testing, or when questioned costs are identified through a single audit or other review. No Regional processes will be modified as a result of the OIG’s identification of this issue. We will continue the established practices and procedures for following up on any questioned costs identified as a result of external or EPA reviews.

OIG Response: We believe our report addresses internal processes over Puerto Rico’s assistance agreements that need improvement, such as the need to confirm equipment was used as intended in the post-award phase, to have better internal documents, and to know if the agency is paying unallowable car allowance fringe benefit costs.

We did not make any changes to the “At a Glance” section of the report. We believe that the finding should remain in the report. We believe that when the agency approved the nonprofit grantee cost methodology, the EPA should have confirmed the nonprofit to be in compliance with 2 CFR § 200.431(f), which clarifies that personal use of vehicles is unallowable as a fringe benefit. Also, the agency agreed to the recommendation and provided a corrective action with completion date. The finding chapter is needed to support the facts.

We believe that, while it is the grant recipient’s responsibility to maintain documentation, the agency should not wait for and rely only on external reviews for oversight.

Chapter 1

Background – Page 1

Region 2 requests paragraphs one and two be revised. EPA funds assistance agreements as a grant or a cooperative agreement. The purpose of awarding assistance agreements is expressly for public benefit. EPA Assistance Agreement programs are characterized as competitive or non-competitive, discretionary or non-discretionary, and/or are considered a Continuing Environmental Program or non-Continuing Environmental Program (i.e. project grants, fellowships). An SRF is a specific grant program authorized by statute; it is not an optional mechanism for awarding grant funds.

OIG Response: We updated the “Background” section in accordance with the suggested wording.

Responsible Offices – Page 2

We request the last paragraph to be clarified using the following language:

The Region 2 Office of Policy and Management, Grants and Audit Management Branch, also has responsibilities regarding assistance agreements with Puerto Rico. The branch is responsible for the administrative review, preparation of awards, administrative post-award management, development of grant-specific administrative terms and conditions, approval of grant payment requests for recipients on reimbursement in conjunction with the program office, closeout, and administrative oversight for all grants and cooperative agreements in Region 2. The branch also provides support, as needed, to the regional program offices, which perform similar functions from the program perspective.

OIG Response: We updated the “Responsible Offices” section in accordance with the suggested wording.

Chapter 2-

Region 2 Did Not Confirm EQB’s Equipment Use - page 5

Region 2 POs did not confirm EQB’s grant equipment use. The EPA’s Grants Policy Issuance (GPI) GPI-02-02 states that POs have a responsibility during the post-award phase to confirm that a grant recipient purchases and uses equipment according to the approved budget and work plan. However, Region 2 POs conducted programmatic baseline reviews that were limited to specific data areas, which did not include confirming equipment use. POs need to be familiar with the use of equipment purchased under a grant to make a reasonable determination for

future equipment requests and to confirm that taxpayer funds are being used in accordance with grant requirements.

This chapter cites the requirements of GPI-02-02, but fails to note the following provisions of this GPI, which mirror the regulations (see 2 CFR 200.313, Equipment):

Section 4, Definitions, states the following:

“States are not subject to these requirements. States will use, manage and dispose of equipment acquired under a grant by the state in accordance with state laws and procedures.”

Section 5, Disposition Options, states the following:

“Special Cases

States: State agencies may manage and dispose of equipment acquired under assistance agreements in accordance with state laws and procedures.”

“State agencies can manage equipment according to their state regulations.”

Region 2 worked closely with EQB to develop its procedures and specific systems to be in compliance with federal regulations and Generally Accepted Accounting Principles. EPA has maintained an oversight role with EQB as it has worked to further develop internal control processes and implemented its own procedures. EQB’s procedures for equipment are compliant and it is incumbent upon EQB to follow its procedures. The report does not cite any instances in which EQB inappropriately procured or managed equipment, or where its property management procedures were not followed.

OIG Response: We agree with the EPA’s statement that GPI-02-02 requires states to manage equipment. However, the policy also includes a statement in Section 2 about scope: “This guidance applies to all EPA POs and GMOs awarding or administering assistance agreements.” Therefore, POs are “responsible for confirming that the recipient purchases that equipment within the time frame outlined in their milestones and uses the equipment for the purposes outlined in the work plan.” The regional POs did not follow this requirement for the equipment outlined in this chapter.

POs Did Not Confirm EQB’s Equipment Use – page 6

The statement that POs “Did Not Confirm EQB’s Equipment Use” is not correct. Project Officers review both the budget package and the workplan; they confirm the equipment and its intended use in the cost review checklist, completed as part of the Funding Recommendation process. Additionally, GPI-02-02 does not require a Project Officer to assess the equipment needs under one agreement by reviewing a recipient’s complete equipment inventory and procurement history. The OIG’s statement that “POs should be aware of how equipment purchased under previous grants is being used to make a reasonable determination whether additional purchases are necessary” is outside the scope of a POs responsibility, potentially beyond their expertise, and would create undue administrative burden on the recipients and EPA staff. We note that the OIG’s review did not identify any unnecessary equipment, and that EQB’s procedures prohibit the purchase of unneeded items.

OIG Response: We updated the title and body of Chapter 2 to address that POs did not confirm equipment was used as outlined in the approved work plans.

Additional Equipment Purchases Without Confirmation – Page 7

We suggest revising this section to clarify the OIG’s purpose for conveying the information. POs are required to complete baseline monitoring at least annually, the Project Officer Off-Site/On-Site Review Guidance and Protocol cited is used for programmatic advanced monitoring reviews for selected grant and cooperative agreements. Unless a specific grant is selected as part of a small sample of agreements for this type of additional review, a PO would not utilize this checklist to document equipment purchases and therefore, it would not be in the grant file. A review of the Grantee Compliance Database confirmed that the agreements identified in Table 1 were not selected for programmatic advanced monitoring review. Table 1 lists equipment budgeted under the agreement, all of those equipment dollars were reviewed by the PO and determined to be reasonable, allowable and necessary to complete the milestones of the workplan covered by the agreement at the time of the award. Please note that the PPGs for EQB, grant numbers 99293412 and 99293413, listed in Table 1 have not been closed or are currently active. The Project Officer has provided documentation to support her review and approval of equipment EQB purchased under each agreement.

OIG Response: We agree and deleted the subsection in the “Additional Equipment Purchased Without Confirmation” related to the above-mentioned protocol, as it would be part of the advanced monitoring reviews only. In addition, we added a column to Table 1 to show the status (open or closed) of each grant listed.

PO Reviews Were Limited to Specific Data – Page 7

The report indicates that “Region 2 stated that an equipment review is not required for EQB since they are no longer considered high-risk recipient.” While it is not clear what context this statement was made, as a result of EPA lifting the High Risk designation, EQB is no longer required to submit supporting expenditure documentation that was required with its requests for payment when under the High Risk designation. As discussed previously, EQB is considered a state agency and is required to follow its own procurement policies and procedures. EPA reviewed and approved the proposed equipment purchases in the grant budgets and has extensively reviewed EQB’s procurement policies and standard operating procedures. Region 2 has consulted with the Headquarters Office of Grants and Debarment, National Policy, Training & Compliance Division and that office is in agreement with the statement previously provided to the OIG by Region 2:

POs are not responsible for reviewing existing inventories before approving equipment purchases. Rather, POs are required to use their best professional judgment and considerations such as knowledge of the type of equipment, consistency with the recipient’s procurement system, market research/market value, or a prudent person test to assess the reasonableness and necessity of proposed equipment purchases. Particularly for state governments in continuing environmental grant programs, it is expected that there will be turnover in equipment, especially computers, and that every year a fraction of the existing inventory will be replaced.

Region 2 maintains that POs were reviewing and approving equipment in accordance with the Agency’s policies and regulations.

OIG Response: We agree that EQB is a state agency and is required to follow its own procurement policies and procedures. However, GPI-02-02 includes a statement in Section 2 about scope: “This guidance applies to all EPA POs and GMOs awarding or administering assistance agreements.” Therefore, POs in the post-award phase are “responsible for confirming that the recipient purchases the equipment within the time frame outlined in their milestones and uses the equipment for the purposes outlines in the work plan.” We updated the report to note that POs did not confirm EQB equipment was used as outlined in the work plans.

POs Are Unfamiliar with EQB’s Equipment – Page 8

We respectfully disagree with this section and request it be revised. Region 2 was extensively involved in the development of EQB’s procurement policies and standard operating procedures. We have thoroughly reviewed the implementation of those procedures and have maintained a close oversight role with EQB as they have continued to develop additional internal controls since the High Risk Designation was lifted. POs properly reviewed the equipment lists included with the proposed budgets in accordance with grant regulations and EPA policy. Each piece of equipment proposed is assessed and determined to be allowable, reasonable, and necessary for the completion of the workplan milestones. EQB’s procedures require EPA approval prior to making changes in proposed equipment purchases and GPI-02-02 (as well as the EPA grant regulations) requires a state agency to follow its policies and procedures regarding equipment. Therefore, it is the Agency’s position that there is no benefit for a PO to assess a state agency’s complete equipment inventory prior to approving equipment for every grant nor is it within the scope of EPA’s oversight responsibilities.

OIG Response: We agree that there is no benefit for a PO to assess a state agency’s complete equipment inventory prior to approving equipment for every grant. We believe that, once EQB purchases equipment in accordance with the grant, it is the PO’s responsibility in the post-award phase to make sure EQB uses the equipment in accordance with the approved work plan, as required by GPI-02-02.

We updated the title and body of Chapter 2 to indicate that POs did not confirm EQB equipment was used as outlined in work plans.

Chapter 3 - Page 9-13

Region 2 Needs to Improve Internal Documentation for Puerto Rico Assistance Agreements

We respectfully request the title for this chapter be reconsidered, it does not accurately reflect the contents of the chapter. The issues cited in this section are immaterial to grants management and EPA’s oversight. The Comprehensive Administrative Review Checklist is a tool to assist GSs in reviewing the application packages and funding recommendations and identifying potential issues; the checklist does not constitute a final Agency determination or an official report. Additionally, due to multiple levels of internal controls and management reviews, there were no instances of improper awards being made. We contend that Region 2 has proper internal controls and procedures in place to properly oversee Puerto Rico grants. Additionally, Region 2 has already provided file content training to POs and Managers, updated its File

Content Training available online, has provided written reminders to staff to print grant related documents and will continue to do so.

OIG Response: We agree that Region 2 has internal controls and procedures in place to oversee Puerto Rico grants. However, we believe that improvements are needed and that the title accurately reflects the need for improving controls over internal documentation.

We stated in our report that the comprehensive administrative review checklist is a tool to facilitate the proper review of applications and funding packages and to assist GSs in identifying errors; therefore, we did not make any additional changes to the body of the report.

**Chapter 4 –
Region 2 Paid CCSJBE for Car Allowances as Fringe Benefits – Page 16**

CCSJBE did not request “the same fringe benefits” in 2017 as it did in 2016. The periods covered were different. We request the following paragraph be clarified as follows:

The PO informed us that, in FY 2016 under Grant Number 99206921, CCSJBE claimed \$7,005 for car allowance fringe benefits for the Executive Director and Volunteer/Outreach Coordinator. In addition, as of March 29, 2017, CCSJBE claimed \$3,974 in FY 2017 for car allowance fringe benefits for the Executive Director and Volunteer/Outreach Coordinator under Grant Number 99206922. The PO stated that the costs, estimated at over \$10,000, were not monitored by EPA to determine if they related to personal or work use.

OIG Response: We agree that the same costs were not claimed in FYs 2016 and 2017. We were referring to the car allowance fringe benefit in our report. We updated “the same fringe benefits” to “car allowance fringe benefits.”

Region 2 Should Confirm Costs –

Region 2 has already begun the process of verifying that for the costs of the vehicle allowance fringe benefits for the Executive Director and Volunteer/Outreach Coordinator are properly supported. CCSJBE has met with Region 2 staff and has submitted draft revised procedures for review and comment. We maintain that we will pursue the appropriate remedy based on the supporting documentation received from the recipient.

OIG Response: We consider the agency’s planned corrective action to satisfy the intent of the recommendation.

Distribution

The Administrator
Chief of Staff
Chief of Staff for Operations
Deputy Chief of Staff for Operations
Regional Administrator, Region 2
Agency Follow-Up Official (the CFO)
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Deputy Regional Administrator, Region 2
Director, Office of Grants and Debarment, Office of Administration and Resources Management
Director, Grants and Interagency Agreements Management Division,
Office of Administration and Resources Management
Director, Office of Regional Operations
Regional Public Affairs Officer, Region 2
Director, Caribbean Environmental Protection Division, Region 2
Director, Office of Policy and Management, Region 2
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Region 2