



United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: October 21, 2011

REPLY TO  
ATTN OF: 08703-5-SF (8)

TO: Thomas L. Tidwell  
Chief  
Forest Service

ATTN: Donna M. Carmical  
Chief Financial Officer

FROM: Gil H. Harden /s/  
Assistant Inspector General  
for Audit

SUBJECT: Grant Recipient Used Recovery Act Funds for Unauthorized Purposes – The Recovery Act - Forest Service (FS) Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (8)

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided the Department of Agriculture (USDA) with \$28 billion in funding.<sup>1</sup> Of this amount, \$1.15 billion was allotted to the Forest Service (FS) to implement projects that accomplish its mission of sustaining the nation's forests and grasslands, creating jobs, and promoting U.S. economic recovery. Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Further, in February 2009, the Office of Management and Budget (OMB) issued initial guidance that required Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.<sup>2</sup> OMB issued additional guidance in April 2009 to clarify existing requirements and establish additional steps to facilitate accountability and transparency. Moreover, OMB emphasized that, due to the unique implementation risks of the Recovery Act, agencies must take steps, beyond standard practice, to initiate the additional oversight mechanisms.<sup>3</sup> The USDA's Office of Inspector General (OIG) was charged with overseeing FS and other agencies' activities

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<sup>1</sup> Public Law 111-5, February 17, 2009.

<sup>2</sup> Office of Management and Budget Memorandum M-09-10.

<sup>3</sup> Office of Management and Budget Memorandum M-09-15.

in order to ensure Recovery Act funds are spent in a manner that minimizes the risk of improper use. This report is one in a series of reports pertaining to FS Recovery Act-funded grants to non-Federal entities. The issue discussed in this report, along with any others identified in our field work, will be compiled into a final report at the conclusion of our audit.

The Recovery Act included \$200 million<sup>4</sup> in grant funding for FS to implement Wildland Fire Management (WFM) activities on State, county, and private lands.<sup>5</sup> From May through September 2009, FS approved 152 WFM projects on non-Federal lands. Our audit examined a statistical sample of 20 of these projects across the country. The grant for one of the projects in our sample was awarded to Colorado State University (CSU). CSU administered the grant for a sub-recipient—a privately-owned saw mill—which was to use the grant funds for meeting labor costs of its employees and temporary workers employed by a staffing company hired by the sawmill. No other costs were authorized. Under OMB guidance, CSU is required to monitor sub-recipients to ensure that they use funds in compliance with Federal statutes and the terms of the grant award.<sup>6</sup> OMB Circular A-133 specifies that Federal fund recipients must pay for program costs before they request reimbursement.<sup>7</sup>

We found that CSU reimbursed the sawmill with grant funds without requesting adequate documentation to show that the sawmill had actually paid the expenses it claimed for reimbursement. This occurred because CSU's policy for grant management only requires that sub-recipients submit invoices to support their reimbursement requests. Though invoices show that a sub-recipient has incurred costs, they do not prove that the sub-recipient has paid the entity who issued the invoice. As a result of this policy, CSU did not detect that the sawmill improperly used \$128,610 of reimbursed Recovery Act funds for unauthorized purposes, such as paying for the sawmill's non-salary costs, or directing funds to an affiliated mill in another State.

We note that during this time period, the weaknesses in CSU's grant management policy went undetected by FS. However, since we are still conducting our analysis of FS' agency-wide controls over WFM Recovery Act grants, we will hold our recommendations regarding this matter for our final report.

In August 2009, CSU received a Recovery Act-funded grant from FS for \$6.25 million.<sup>8</sup> CSU sub-granted the funds to 10 sub-recipients, one of which was the sawmill. Between December 2009 and May 2010, the sawmill received a total sub-grant award of \$522,330 to pay

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<sup>4</sup> This amount excludes \$50 million designated for non-Federal wood to energy grants.

<sup>5</sup> These activities include hazardous fuels reduction, forest health, and ecosystem improvements.

<sup>6</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart B, Section 210(e), June 26, 2007.

<sup>7</sup> OMB Circular A-133, *Compliance Supplement*, Section 3-C-1, March 2011.

<sup>8</sup> Federal Financial Assistance Award of Recovery Act Domestic Grant 09-DG-1102-82B1-028, August 7, 2009.

the salaries of 17 specific jobs, such as a forklift operator. The sub-grant specified that CSU's contracting officer must give prior approval to any "major deviations" from the agreed budget.<sup>9</sup>

Between February and April of 2010, the sawmill received \$335,572 in reimbursements from CSU. For all these reimbursements, the sawmill submitted its payroll records and invoices from the temporary staffing company for salary expenses—all of which were authorized costs under the grant. However, the sawmill did not always use the reimbursed funds to pay the temporary staffing company. Instead, the sawmill would receive reimbursements into its bank account and soon after transfer corresponding amounts to pay for unauthorized activities. This eventually totaled \$128,610 in unauthorized costs.<sup>10</sup>

CSU's policy for managing sub-grants did not require the sawmill to submit cleared checks or other such documentation to prove that it paid for the services for which it sought reimbursement. The policy required a CSU staff member to review invoices submitted by sub-recipients and determine that the amount charged was for purposes that met program goals. Though the policy allowed CSU staff to request additional documents to support reimbursement requests if they chose to do so, the staff did not choose to ask the sawmill for proof that its claimed costs had actually been paid. Thus, CSU did not know how the sawmill was actually using the funds.<sup>11</sup>

CSU's policy was created in February 2010, and was meant to help satisfy Federal sub-recipient monitoring requirements and to enhance accountability over Recovery Act funds.<sup>12</sup> Previously, CSU had a non-standardized system in place, with different sub-recipients submitting different types of records with their reimbursement requests. Though CSU received and administered many FS grants in the past, the Recovery Act was the first time that CSU handled a large number of sub-recipients that were either private companies or local governments. While creating a uniform policy was a positive step, CSU's policy fell short of Federal requirements and could not effectively monitor sub-recipient activities.

The Office of Sponsored Programs (OSP) Director at CSU who created the policy mistakenly believed that Federal regulations allowed sub-recipients to be reimbursed for costs incurred, but not yet paid.<sup>13</sup> The OSP Director also believed that unpaid invoices were sufficient documentation to support a reimbursement claim. Though there are circumstances where grant fund recipients are allowed to receive payments prior to incurring costs, the practice is subject to

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<sup>9</sup> Subaward Number G-6702-2, Article XIV, pg 5.

<sup>10</sup> The remaining \$206,962 reimbursements were used legitimately to pay for the authorized costs.

<sup>11</sup> We examined a statistical sample of 6 of the 10 sub-recipients for this particular grant and found that they also submitted only invoices to support their reimbursement requests. However, in a limited review of the remaining five sub-recipients, we found no evidence that they had not paid the invoices they submitted for reimbursements.

<sup>12</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section 105(d)(3), June 26, 2007.

<sup>13</sup> OSP is responsible for administering Federal grant funds and approving sub-grant reimbursement requests.

specific conditions and must be approved and documented in the grant or sub-grant award. Neither CSU or the sawmill had been approved for such advance grant payments.

Without adequate documentation requirements from CSU, the sawmill was able to use grant funds for unauthorized purposes, such as paying other creditors, including the expenses of another, idle mill that the company owned in a different State. Although the sawmill did not use \$128,610 in grant funds to pay the staffing company, it did eventually pay \$58,731 to the staffing company using its own funds. The remaining \$69,879 of staffing service costs were never paid.

In May 2010, the sawmill's financial troubles escalated. A court forced it into a receivership, in which a new person (the receiver) began running the company.<sup>14</sup> At that time, CSU terminated its sub-grant with the sawmill. However, the sub-grant still had a balance remaining of \$186,758. CSU felt that the new entity formed by the receiver could continue to fulfill the intent of the original sub-grant (i.e., preserving jobs at the sawmill) until it found a viable buyer. Accordingly, CSU worked with FS to issue a new sub-grant, totaling \$186,758, to the new entity.

At this time, the receiver became aware of the sawmill's unauthorized payment problems, and alerted CSU. The OSP Director decided to place additional documentation requirements on the new sub-grant to ensure compliance. OSP required the new entity to provide cancelled checks as proof that the expenditures it submitted for reimbursement had already been paid. However, OSP only required the additional documentation from this specific sub-recipient, and did not modify the documentation requirements in its overall grant management policy. The OSP Director stated that he did not expand the documentation requirement because he did not want to add additional burdens to other sub-recipients based on the actions of one sub-recipient.

This grant is among 87 active FS grants worth nearly \$50 million that CSU was administering as of June 2011. Because CSU uses the same policy to administer all of its sub-grants, CSU continues to run the risk that payment issues similar to those we identified could occur. Therefore, we are recommending that FS require CSU to alter its policies to require more documentation, and to review its existing grants to ensure that all invoices submitted for reimbursement claims were actually paid.

We also recommend that FS recover from CSU the Recovery Act grant funds that the sawmill used for unallowable costs. As the prime recipient of the grant, CSU is responsible for the activities of its sub-recipients and accountable for the unallowable costs.<sup>15</sup> Although we maintain that \$128,610 was not specifically used to pay the invoices submitted for reimbursement—and is therefore subject to question—we also acknowledge that the sawmill did

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<sup>14</sup> A receivership involves a person (i.e., a receiver) who is appointed to preserve the property and assets of an insolvent corporation, partnership, or individual for the benefit of affected parties (e.g., creditors). The receiver can be appointed by a court, regulatory agency, or in some cases by the insolvent party. In this case, the receivership was ordered by a State court.

<sup>15</sup> 7 CFR 3015.190(b)(6), Uniform Federal Assistance Regulations.

eventually use \$58,731 of its own funds to pay a portion of the outstanding invoices. The remaining portion of the staffing service costs, \$69,879, was never paid, and therefore should be recovered. We discussed our concerns with FS officials on September 13, 2011, and they agreed with our finding and recommendations.

We recommend that FS:

1. Recover from CSU the \$69,879 in Recovery Act grant funds the sub-recipient used for unauthorized purposes.
2. For all FS grants still active, require CSU to verify that sub-recipients actually paid the invoices they submitted for reimbursement, and that the grant funds were used for their intended purpose.
3. In those instances where CSU determines that the invoices were not paid, or grant funds were used for an unauthorized purpose, require that CSU recover the grant funds from the sub-recipient.
4. Instruct CSU to modify its policy to require that sub-recipients of Federal grant funds provide documentation showing that claimed costs, including invoices, have been paid before seeking reimbursement. If sub-recipients do not provide such documentation, CSU should withhold reimbursement.

Please provide a written response within 5 days outlining your proposed corrective action for this issue. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Joseph Mickiewicz, Director, Rural Development and Natural Resources Division, at (202) 690-5907.

cc:

Jennifer McGuire, Director of Audit and Assurance, Forest Service  
Linda Smith, Supervisory Accountant, Forest Service  
Dianna Capshaw, Supervisory Accountant, Forest Service  
Erica Banegas, Branch Chief, Forest Service  
Sandy Coleman, Branch Chief, Forest Service  
Janet Roder, OIG Audit Liaison, Forest Service

**Agency's Response**

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**USDA'S**

**FOREST SERVICE'S**

**RESPONSE TO AUDIT REPORT**



File Code: 1430

Date: November 1, 2011

**Subject:** Response to ARRA Fast Report 08703-5-SF (8), "Grant Recipient Used Recovery Act Funds for Unauthorized Purposes - Recovery Act - FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands (8)

**To:** Gil H. Harden, Assistant Inspector General for Audit

This letter is in response to Office of the Inspector General (OIG) Fast Report No. 08703-5-SF (8) regarding the grant awarded to Colorado State University (CSU) received on October 21, 2011. The Forest Service generally concurs with the recommendations and the response for each is as follows:

**OIG Recommendation #1:** Recover from CSU the \$69,879 in Recovery Act grant funds the sub-recipient used for unauthorized purposes.

**Forest Service Response:** The Forest Service is currently working with Colorado State University Office of Sponsored Programs (Grants); Colorado State Forest Service; USDA Office of General Counsel (OGC); and U.S. Attorney's Office to resolve the issue of \$69,878.64 used for unauthorized purposes. The Forest Service has requested CSU to provide additional information to the agency by November 30, 2011. Upon receipt of their response the Forest Service will perform a review, and if any issues are identified, the agency will manage them in accordance with applicable OMB Circulars. These actions will be completed by January 31, 2012.

**OIG Recommendation #2:** For all Forest Service grants still active, require CSU to verify that sub-recipients actually paid the invoices they submitted for reimbursement, and that the grants were used for their intended purpose.

**Forest Service Response:** Based on the results of the review conducted by the Forest Service referenced in Recommendation 1, the agency will take appropriate action in accordance with applicable OMB circulars. These actions will be completed by January 31, 2012.

**OIG Recommendation #3:** In those instances where CSU determines that the invoices were not paid, or grant funds were used for an unauthorized purpose, require that CSU recover the grant funds from the sub-recipient.

**Forest Service Response:** Based on the results of the review conducted by the Forest Service referenced in Recommendation 1 and 2, the agency will take appropriate action in accordance with applicable OMB circulars. These actions will be completed by January 31, 2012.



**OIG Recommendation #4:** Instruct CSU to modify its policy to require that sub-recipients of Federal grant funds provide documentation showing that claimed costs, including invoices, have been paid before seeking reimbursement. If sub-recipients do not provide such documentation, CSU should withhold reimbursement.

**Forest Service Response:** Based on the results of the reviews conducted by the FS, the agency will take appropriate action in accordance with applicable OMB Circular requirements. These actions will be completed by January 31, 2012.

If you have any questions, please contact Donna Carmical, Chief Financial Officer, at (202) 205-1321 or [dcarmical@fs.fed.us](mailto:dcarmical@fs.fed.us).

*/s/ Donna M. Carmical*  
DONNA M. CARMICAL  
Chief Financial Officer