



U.S. Department of Agriculture  
Office of Inspector General  
Southwest Region  
Audit Report

**Forest Service  
Challenge Cost Share Program**



**Report No.  
08099-9-Te  
June 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: June 22, 2001

REPLY TO

ATTN OF: 08099-9-Te

SUBJECT: Challenge Cost Share Program

TO: Dale Bosworth  
Chief  
Forest Service

ATTN: Linda Washington  
Audit Liaison

This report presents the results of our audit of the Forest Service (FS) Challenge Cost Share Program. The FS' response to the draft report, dated May 31, 2001, is included in exhibit D with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report.

We agree with your management decision on Recommendations Nos. 1 and 5. We need additional information to reach management decisions on Recommendations Nos. 2, 3, and 4. The information needed is set forth in the sections of the report marked "OIG Position".

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of each audit recommendation. Please note that the regulation requires management decisions to be reached on all findings and recommendations within a maximum of 6 months from report issuance and final actions to be taken within 1 year of the management decisions.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

/s/ Richard D. Long  
RICHARD D. LONG  
Assistant Inspector General  
for Audit

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# EXECUTIVE SUMMARY

## Forest Service Challenge Cost Share Program Report No. 08099-9-Te

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### RESULTS IN BRIEF

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The Forest Service (FS) could not adequately account for the activities of the Challenge Cost Share Program (CCSP). In our opinion, a lack of clearly defined program goals and objectives

contributed to inadequate management controls over the program. The FS did not have procedures in place to accumulate and report on the expenditures of the CCSP even though for fiscal year (FY) 1999, Congress stated its expectation that the FS would comply with the \$35.8 million funding level in its budget request.

For the eight agreements that were reviewed from the list of 465 agreements provided by the FS, we did not find problems with the accomplishment of agreement purposes. However, because most agreements could not be identified and were not subject to review, we cannot express an opinion regarding the overall program accomplishments. We also determined that CCSP is not administered in accordance with Title 7, Code of Federal Regulations (CFR) 3019, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.

Due to the lack of program controls, the FS was unable to provide us with information on 92 percent of the CCSP agreements in place, and we were, therefore, unable to include most of the agreements in the scope of this audit.

As a result, the FS is unable to manage or control the activities and expenditures of the CCSP. The FS has no means to accurately report funds spent to Congress or to agency management. The FS could not determine if it exceeded, met, or expended less than the \$35.8 million budgeted for the CCSP for FY 1999. Also, for the 8 percent of the CCSP agreements identified by the FS and included in our review, we found that the FS did not require the United States Department of Agriculture (USDA) Uniform Federal Assistance regulations and the Office of Management and Budget (OMB) regulations containing cost principles be applied. The FS Manual and Handbook did not contain provisions to incorporate USDA and OMB regulations for CCSP agreements. This occurred because FS officials do not believe that CCSP agreements are financial assistance.

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**KEY RECOMMENDATIONS**

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We recommend that the FS develop regulations containing guidelines and controls for the CCSP. We also recommend that the FS develop and implement procedures to capture and report expenditures for the CCSP in the FS accounting records. In addition, we recommend that the Federal Assistance Awards Data System (FAADS) be used to identify CCSP cooperative agreements, that the USDA regulations for cooperative agreements be applied to CCSP agreements and that the FS ensure employees understand regulations on cost-sharing requirements and improvements made on National Forest System (NFS) lands.

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**AGENCY RESPONSE**

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The FS provided a written response to the draft report (See exhibit D) concurring with our recommendation to develop regulations and policy for the CCSP. The FS also concurred with our recommendation to ensure that employees understand cost-sharing requirements and rules regarding improvements made on NFS lands. The response stated that the FS did not agree with the overall assessment that the Challenge Cost Share Authority is a “program” within the FS. In addition, the FS did not concur with recommendations 2, 3, and 4 concerning accounting for expenditures of the CCSP, determining if the CCSP agreements constitute financial assistance, and applying appropriate USDA regulations to CCSP agreements.

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**OIG POSITION**

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We agree with the management decision for recommendations 1 and 5. The conditions needed to reach management decision on recommendations 2, 3, and 4 are set forth in the finding and recommendations section of the report.

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# INTRODUCTION

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## BACKGROUND

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According to the FS, the CCSP was started in FY 1986 to respond to the FS' needs and public's desires for expansion and enhancement of wildlife and fish habitat improvement projects and activities. Generally, FS awards are made to partners for performance of planned projects. There was neither a specific statute nor an appropriation for the CCSP. Prior to FY 1992, the CCSP was authorized annually in Department of Interior appropriation language " \* \* \* to continue the Challenge-Cost Share Program." In FY 1992, the Department of Interior appropriations language was changed to "hereafter continue the Challenge Cost-Share Program."

In FY 1992, the FS proposed specific statutory language authorizing the CCSP; however, Congress did not enact the legislation. The FS used funds appropriated for other FS activities to administer the CCSP. For example, appropriations for NFS and State and Private Forestry were used for CCSP activity. According to the FS, the CCSP is intended to leverage Federal dollars with matching funds from other sources.

Grantees (called partners or contributors) include local, county, State, and national agencies. FS officials further stated that private interest groups, universities, senior citizens, disabled youths, correction facility inmates, students, utility companies, recreation industries, timber purchasers, interpretive associations, and private businesses are included in the CCSP.

According to the FS, the CCSP was expanded to include recreation and trail operations and maintenance, construction of recreation facilities, and road and trails projects<sup>1</sup>.

In FY 1986, the FS budgeted \$903,000<sup>2</sup> for the CCSP based on a Senate Appropriations Committee report. In FY's 1987 through 1991, the FS was authorized annually " \* \* \* to continue the Challenge Cost Share Program \* \* \* " by language in the Appropriation Acts.

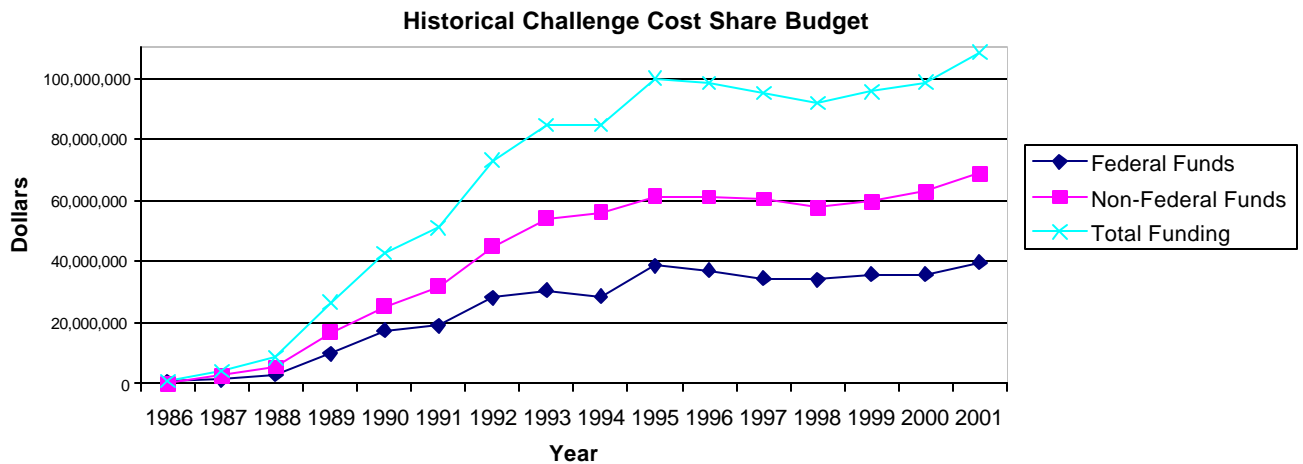
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<sup>1</sup> The types of grantees and program expansion described by the FS could not be confirmed. See scope limitations.

<sup>2</sup> All dollar figures used in conjunction with the CCSP are "budgeted" amounts. Actual figures for the CCSP are unknown.

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In its annual budget request to Congress, the FS prepared an exhibit titled “Challenge Cost Share Funding Display” which provided the amount of FS appropriations and non-Federal funds budgeted for the CCSP. As illustrated in the chart below, the annual proposed FS funding for the CCSP has grown from \$903,000 in FY 1986 to \$39.8 million in FY 2001. See exhibit C for annual budget levels.



## OBJECTIVES

The audit objectives were to determine if: (1) the FS was administering the CCSP in accordance with Title 7, Code of Federal Regulations (CFR) 3019, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations<sup>3</sup>, and (2) grant purposes were being accomplished. However, because the FS did not consider the CCSP agreements as financial assistance, it did not apply these regulations; therefore, we used FS internal policies as outlined in the FS Manual and Handbook to evaluate the program.

## SCOPE

The scope of the audit was limited by the inability of the FS to provide information on 92 percent (5,410 of 5,875) of the CCSP cooperative agreements for FY1999. In FY1999, the FS proposed 5,875 CCSP cooperative agreements for \$35.8 million in Federal funds and \$59.7 million in non-Federal funds. However, when asked for details supporting the 5,875 agreements, the FS could only provide a list of 465 CCSP cooperative agreements totaling \$11 million in Federal funds and \$16 million in non-Federal funds. According

<sup>3</sup> Title 7, CFR 3019, dated August 21, 1995.

to FS officials, the remaining 5,410 agreements contained other types of agreements that were not challenge cost share agreements as defined by the FS.<sup>4</sup> Therefore, the scope of our audit was limited to the 465 CCSP cooperative agreements identified by the FS (8 percent of the agreements and 31 percent of the proposed FS funding). In addition, during our fieldwork we included two 1998 agreements in our scope.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

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## METHODOLOGY

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CCSP agreements were judgmentally selected for review from a list of national, regional, and local agreements provided by the FS. Agreements at the national and regional level were selected based on large dollar amounts. Some smaller, local agreements were also selected for review. (See exhibit B for a list of reviewed agreements.) The audit included reviews of administrative and financial records, regulations, policies, and procedures that apply to the 465 CCSP agreements identified by the FS. In addition, we reviewed the legislative history of the CCSP and interviewed Federal staff responsible for the administration of agreements to determine administrative and accounting controls over agreements.

The FS policies and procedures for administration of the CCSP were reviewed at the FS Washington Office and selected FS field offices. We reviewed eight CCSP agreements totaling about \$4.7 million (six from FY 1999 and two from FY 1998). We reviewed 6 of the 465 CCSP agreements. We also reviewed an agreement from FY 1998 that was a precursor to one of the six agreements. Additionally, we reviewed another FY 1998 agreement that was the subject of a whistleblower complaint.

Fieldwork was performed at the FS National Office in Washington, D.C., and the Lake Tahoe Basin Management Unit in Lake Tahoe, California. We also visited The Nature Conservancy and the National Fish and Wildlife Foundation (NFWF) in Washington, D.C., and Aramark, Inc. (dba Travel Systems Limited), at Lake Tahoe, Nevada. The fieldwork was performed between January 31 and May 3, 2000. (See exhibit A for a list of sites visited.)

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<sup>4</sup> The CCSP budget request to Congress lists the proposed number of partnerships. An agreement could have multiple partners making it difficult to establish a correlation between the number of partnerships and agreements.

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Although agreement 99-CA-014 with the NFWF was listed as a CCSP agreement, we determined it was a cooperative agreement subject to the Federal Grants and Cooperative Agreements Act (FGCAA).<sup>5</sup> Our preliminary review of the NFWF agreement disclosed the potential for material problems, and a separate audit of USDA grants to NFWF was initiated. The results of the NFWF audit will be reported separately.

During the fieldwork stage of the audit, we issued a statement of conditions to notify the FS of important issues noted during our review of the CCSP. The FS responded to our statement of conditions and their response is incorporated in this report.

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<sup>5</sup> Title 31, USC chapter 63, Using Procurement Contracts and Grant and Cooperative Agreements, dated September 13, 1982.

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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 1</b>	<b>CONTROLS OVER CCSP NEED IMPROVEMENT</b>
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**FINDING NO. 1**

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The FS could not adequately account for the activities of the CCSP. In our opinion, a lack of clearly defined program goals and objectives contributed to inadequate management controls

over the program. The FS did not have procedures in place to accumulate and report on the expenditures of the CCSP, even though, for FY 1999, Congress stated its expectation that the FS would comply with the \$35.8 million funding level in its budget request.

Due to the lack of program controls, the FS was unable to provide us with information on 92 percent of the CCSP agreements in place, and we were, therefore, unable to include most of the agreements in the scope of this audit.

As a result, the FS is unable to manage or control the activities and expenditures of the CCSP. The FS has no means to accurately report funds spent to Congress or to agency management. The FS could not determine if it exceeded, met, or expended less than the \$35.8 million budgeted for the CCSP for FY 1999.

### Management Accountability and Control

The FS did not have established program guidelines to adequately control the CCSP. From FY 1986 through FY 1991, the CCSP was authorized annually by the Department of Interior appropriation acts. The only published information, of which we are aware, for the overall goals and objectives of the CCSP, is contained in the annual FS budget proposal and includes a special exhibit that summarizes the CCSP and proposes funds to be allocated to the program.

Departmental regulations state that organizational policies and procedures should be used to ensure that programs achieve their intended results, reliable information is obtained, maintained, and reported for decision making, and that programs and resources are protected from mismanagement. Managers are responsible for the quality of program performance and ensuring that programs follow laws and regulations.

### Unable to Report on CCSP

The FS did not have a procedure to accumulate and report on the expenditures of the CCSP, even though, for FY 1999, Congress stated its expectation that the FS would comply with the \$35.8 million funding level in its budget request.<sup>6</sup> Also, the FS did not note that prior years' expenditures reported in its budget request to Congress did not reflect expenditures, but were budgeted figures. We concluded, and the FS agreed during an interview, that whether the FS exceeded, met, or expended less than the \$35.8 million level for FY 1999 was unknown. The FS did not address this issue in its response to our statement of conditions.

In FY 1999, the FS budgeted \$35.8 million in FS funds and \$59.7 million in matching funds for 5,875 CCSP agreements. However, the FS could only provide a list of 465 challenge cost share agreements totaling \$11 million in FS funds and \$16 million in non-Federal funds. This list of 465 agreements was not available through any organized method of data collection, but had to be manually prepared by each FS field office. Also, this list could not be independently verified because CCSP information is not reported by the FS or entered into the FAADS. FAADS is a database of Federal financial assistance that is used by all major agencies of the Federal government. The data collected contains 33 fields of information including the awarding agency, the amount of funds awarded, location of the recipient, and a project description. The FS uses FAADS for other agreements but does not submit the data for CCSP agreements because it does not consider them to be financial assistance. (See the following section.)

According to FS officials, the remaining 5,410 agreements for \$24.8 million of FS funds and \$43.7 million in non-Federal funds were for other than challenge cost share agreements. When asked to identify the CCSP agreements that were not for challenge cost share purposes, FS officials could only cite non-specific "partnerships" which included participating and collection agreements.

We believe that the FS needs to establish program regulations, procedures to properly account for CCSP agreements, and include applicable agreements in FAADS.

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<sup>6</sup> Department of Interior and Related Agencies Appropriations Act for FY 1999, House Report 105-609.

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**RECOMMENDATION NO. 1**

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Develop regulations, in consultation with the Office of the General Counsel (OGC), on the goals and objectives of the CCSP.

**FS Response**

The FS concurred with the recommendation. The Deputy Chiefs for the National Forest Systems and Operations will work with the OGC to further develop regulations and policy pertaining to the goals and objectives of the Challenge Cost Share Authority, no later than December 31, 2001.

**OIG Position**

We agree with the management decision for recommendation No. 1.

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**RECOMMENDATION NO. 2**

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Develop and implement procedures to capture and report expenditures for the CCSP in the accounting records of the FS beginning with FY 1999.

**FS Response**

The FS did not concur with this recommendation. The FS proposed an alternate solution that would develop and implement a procedural guide to account for expenditures under partnership arrangements through the NFS beginning in FY 2003. The FS also stated that upon the completion of the grants and agreements piece of the INFRA database, expenditures for all types of instruments would be tracked.

**OIG Position**

We agree with the planned corrective action in the alternate solution; however, we believe that CCSP expenditures should be accounted for before FY 2003. We would agree to the planned solution if implemented for all partnership arrangements in FY 2002.

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**RECOMMENDATION NO. 3**

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With the assistance of the appropriate USDA offices (the Office of the Chief Financial Officer (OCFO) and OGC), determine if CCSP agreements are financial assistance. If so, use

the FAADS to identify CCSP agreements.<sup>7</sup> FAADS includes 33 items of data including recipient name, purpose of agreements, Federal share, and non-Federal share.

### **FS Response**

The FS did not concur with this recommendation. The FS believes that existing laws allow the FS to enter into “other than assistance” agreements. The FS does not believe that CCSP agreements are financial assistance. The FS stated that the grants and agreements piece of the INFRA database will be able to track all types of instruments when it is complete.

### **OIG Position**

We continue to believe that the FS needs to determine if the CCSP agreements are financial assistance and, if so, to use FAADS to identify the agreements. In its response, the FS did not address the issue of consulting with appropriate USDA offices (OCFO and OGC) to determine if CCSP agreements are financial assistance. We are aware of various OGC opinions that mention the CCSP and the authority for entering into these types of agreements. We believe that the opinions were issued for other purposes and do not specifically address the issue of whether CCSP agreements constitute financial assistance. The FS needs to consult with OCFO and OGC to make this determination.

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<sup>7</sup> The FS does not include CCSP cooperative agreements in FAADS because the FS does not define the CCSP cooperative agreements as “financial assistance”. Only grants and cooperative agreements defined by the FS as “financial assistance” are included in FAADS.

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## FINDING NO. 2

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CCSP agreements were not administered in conformance with USDA procedures for financial assistance. For the 8 percent of the CCSP agreements identified by the FS and included in our review, we found that the FS did not require the USDA and OMB regulations be applied. The FS Manual and Handbook did not contain provisions to incorporate USDA and OMB regulations for CCSP agreements. This occurred because the FS believes that CCSP agreements are not financial assistance because the agreements have been exempted from the Federal Grants and Cooperative Agreements Act (FGCAA) by Congress. As a result, CCSP agreements are being managed outside departmental regulations, with no assurance that the Government's interest is adequately protected.

### Regulations for Agreements Were Not Followed

The FY 1992 Department of Interior Appropriations Act authorized the use of cooperative arrangements and grants for the CCSP and exempted them from the FGCAA. USDA regulations provide the uniform financial and administrative requirements for cooperative agreements with nonprofit organizations<sup>8</sup> and State and local governments.<sup>9</sup>

Included by reference within the USDA regulations are the cost principles prescribed by OMB that are applicable to the specific type of organization. For example, Title 7, CFR 3019, would apply to cooperative agreements between the FS and nonprofit organizations. However, the FS decided not to apply the USDA regulations issued by the Secretary of Agriculture because FS officials do not believe that CCSP agreements are financial assistance. In our opinion, USDA regulations should apply to CCSP agreements. The USDA regulations establish standards for financial assistance such as requirements for the grantee's financial system, cost-sharing and matching standards, and requiring subrecipients to conform to the regulations. Most situations concerning financial assistance are addressed by the USDA regulations and prevent issues from being overlooked in the agreement process.

In response to our statement of conditions, FS officials disagreed that USDA regulations applied to CCSP agreements. They stated that since the CCSP agreements were exempt from the FGCAA, CCSP agreements were not "financial assistance", and, therefore, were not bound by USDA regulations. The FS devised its own internal policies for the administration of CCSP agreements, even though the OGC had advised the FS that, for uniformity, it could apply the USDA regulations and OMB cost principles. When we asked, the OCFO stated that the Secretary of Agriculture applied the USDA

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<sup>8</sup> Title 7, CFR 3019, dated August 21, 1995.

<sup>9</sup> Title 7, CFR 3016, dated January 1, 1998.

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regulations to all agreements (including CCSP) using the statutory authority provided in Title 5, USC 301.<sup>10</sup> While Congress may have exempted CCSP from FGCAA as a means to encourage participation in the program, FS managers need adequate controls to ensure the effectiveness of the program.

It should be noted that in response to our statement of conditions, the FS amended the FS Manual to require the use of the appropriate OMB cost principles<sup>11</sup> for CCSP agreements. We continue to believe that the USDA regulations should be applied to CCSP agreements to ensure uniformity and reduce legal risk for the agency.

#### Internal Policies for CCSP Agreements Not Always Followed

Since the FS did not consider the CCSP agreements as financial assistance, it did not apply USDA regulations; therefore, we used FS internal policies as outlined in the FS Manual and Handbook to evaluate the program. The FS internal policies for the administration of CCSP agreements were in the FS Manual and FS Handbook; however, the FS did not always follow their policies. The FS Manual and Handbook sections on agreements include a category titled “Other Agreements” and the CCSP agreements are included in this category. CCSP agreements between the FS and cooperators are not required to contain provisions incorporating the USDA regulations.

We compared the selected agreements (see Scope) for compliance with the internal policies for “Other Agreements” prescribed by the FS Manual and Handbook. The CCSP agreements did not always contain provisions required by the FS Manual and Handbook. For example, without the required Washington office prior approval, the provisions for modifying an approved indirect cost rate were omitted and the termination provision was modified for two agreements with The Nature Conservancy.

Also, contrary to the FS Manual and Handbook, the amount of matching funds by the cooperator was neither provided during the agreement’s terms nor verified by the FS at the closeout of the agreement. For example, invoices submitted by The Nature Conservancy did not contain the required matching fund information and were not questioned by the FS. The value of software used as a matching contribution in two agreements was not specified. The FS does not have assurance that the value of the software is sufficient to meet matching requirements for the agreements.

In addition, even though the FS Manual prohibits the transfer of improvements on NFS land, the FS had transferred ownership and jurisdiction to the State of Montana of a snowmobile bridge constructed on

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<sup>10</sup> Title 5, USC 301, Departmental Regulations, dated September 6, 1966.

<sup>11</sup> OMB Circular A-122, Cost Principles for Nonprofit Organizations, dated June 6, 1998.

forest lands. The agreement specified that the FS was to provide the following: land for the bridge, survey and design work, some of the materials used in the construction, and secure a permit. The amount of FS funds allocated for the project was \$107,110. In addition, the agreement specified the Montana Fish, Wildlife, and Parks was to assume jurisdiction of the bridge. Only after challenge by an outside party (and then only after numerous appeals) did the FS return the bridge to the NFS.

In response to our statement of conditions, FS officials stated that employees would be reminded of the requirements related to matching funds and to ownership improvements.

We believe that the FS needs to apply USDA regulations to the agreements and ensure that employees understand cost-sharing requirements and rules regarding improvements. These actions will improve the controls over CCSP agreements.

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**RECOMMENDATION NO. 4**

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Apply the appropriate USDA regulations (e.g., Title 7, CFR 3016 through 3019) to all CCSP agreements and amend the FS Handbook and Manual to require application of the appropriate

regulations.

**FS Response**

The FS does not concur with this recommendation. The FS does not believe that CCSP agreements are financial assistance and, therefore, USDA regulations are not applicable. The FS believes that CCSP agreements are subject only to agency program regulations.

**OIG Position**

We continue to believe that the FS should apply USDA regulations to CCSP agreements and that the FS Manual and Handbook should be amended to require the application of appropriate regulations. We do not agree with the FS assessment that CCSP agreements are not financial assistance. Based on the determination made for Recommendation 3, the FS should apply the appropriate regulations to CCSP agreements.

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**RECOMMENDATION NO. 5**

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Ensure that employees understand cost-sharing requirements and rules regarding improvements made on NFS lands.



**FS Response**

The FS concurred with this recommendation. The FS plans to issue a joint letter from the Deputy Chief for National Forest Systems and the Deputy Chief for Operations that will clarify cost-sharing requirements and ownership of improvements to FS lands. The joint letter is to be issued by July 1, 2001.

**OIG Position**

We agree with the management decision for recommendation No. 5.

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## EXHIBIT A – AUDIT SITES VISITED

SITE	LOCATION
FS Wildlife, Fish, and Rare Plants	Washington, DC
National Fish and Wildlife Foundation	Washington, DC
FS Threatened, Endangered, and Sensitive Species	Washington, DC
The Nature Conservancy	Arlington, VA
FS Lake Tahoe Basin Management Unit	Lake Tahoe, CA
Aramark (dbaTravel Systems Limited)	Lake Tahoe, CA
FS Grants and Agreements Office	Rosslyn, VA
FS Region 8/Region 9 Western Operations Center *	Jackson, MS
FS Huron-Manistee Forest *	Cadillac, MI

\* Contacted via telephone

## EXHIBIT B – CCSP AGREEMENTS REVIEWED

Fiscal Year	Type of Review	FS Issuing Office/Location	Recipient	Purpose	Agreement	Federal Funds	Cooperator Funds	Total
1999	Fieldwork	Wildlife, Fish, and Rare Plants Washington, DC	National Fish and Wildlife Foundation	Projects that benefit the NFS lands or FS programs	99-CA-014	\$2,150,000	\$2,150,000	\$4,300,000
1998	Fieldwork	Threatened, Endangered, and Sensitive Species Washington, DC	The Nature Conservancy	Develop and distribute information on a web site on plant and animal species	98-CCS-199	206,000	96,946	302,946
1999	Fieldwork		The Nature Conservancy	Develop and distribute information on plant and animal species	99-CCS-225	226,000	97,298	323,298
1999	Fieldwork	Lake Tahoe Basin Management Unit Lake Tahoe, CA	Aramark (dba Travel Systems Limited)	Develop existing campground and RV park	CCS-05-99-012	1,969,131	1,543,179	3,512,310
		<b>Subtotals:</b>				<b>\$4,551,131</b>	<b>\$3,887,423</b>	<b>\$8,438,554</b>
1999	Desk	National Forest and Grasslands in Texas	Texas Agriculture Experiment Station	Document crayfish and mussel species; student support	08-99-13-CCS-001	15,000	15,000	30,000
1999	Desk	National Forest and Grassland in Texas	Stephen F. Austin University	Survey rare fish and crayfish	08-99-13-CCS-002	5,500	5,500	11,000
1999	Desk	National Forest and Grasslands in Texas	Pineywoods Chapter National Turkey Foundation	Foster appreciation of wildlife especially for inner-city youth	08-99-13-CCS-003	750	4,200	4,950
1998	Desk	Gallatin National Forest	Montana Dept. Transportation, Montana Fish, Wildlife, and Parks and West Yellowstone Chamber of Commerce	Construct a snowmobile crossing	11-98-CCS-03	107,110	109,385	216,495
		<b>Subtotals:</b>				<b>\$128,360</b>	<b>\$134,085</b>	<b>\$262,445</b>
		<b>Totals:</b>				<b>\$4,679,491</b>	<b>\$4,021,508</b>	<b>\$8,700,999</b>

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## EXHIBIT C – HISTORICAL CHALLENGE COST SHARE BUDGET LEVELS

FY	Federal Funds	Non-Federal Funds	Total Funding	Cumulative Total
1986	\$903,700	\$0	\$903,700	\$903,700
1987	1,500,000	2,700,000	4,200,000	5,103,700
1988	3,086,100	5,523,300	8,609,400	13,713,100
1989	9,788,800	16,926,300	26,715,100	40,428,200
1990	17,433,000	25,439,000	42,872,000	83,300,200
1991	19,050,000	31,950,000	51,000,000	134,300,200
1992	28,103,000	45,086,000	73,189,000	207,489,200
1993	30,606,000	54,043,000	84,649,000	292,138,200
1994	28,614,000	56,066,000	84,680,000	376,818,200
1995	38,654,000	61,343,000	99,997,000	476,815,200
1996	37,166,000	61,191,000	98,357,000	575,172,200
1997	34,450,000	60,550,000	95,000,000	670,172,200
1998	34,150,000	57,750,000	91,900,000	762,072,200
Subtotal:	<b>\$283,504,600</b>	<b>\$478,567,600</b>		
1999	35,822,000	59,726,000	95,548,000	857,620,200
Subtotal:	<b>\$319,326,600</b>	<b>\$538,293,600</b>		
2000	35,800,000	62,830,000	98,630,000	956,250,200
2001	39,800,000	68,665,000	108,465,000	1,064,715,200
Total:	<b><u>\$394,926,600</u></b>	<b><u>\$669,788,600</u></b>		

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## EXHIBIT D – FS' WRITTEN RESPONSE TO THE DRAFT REPORT

Report Number 08099-2-Te

**United States Department of Agriculture  
Forest Service (FS)**

**Office of Inspector General (OIG)  
Forest Service Challenge Cost Share Program**

**Forest Service Review Comments  
May 19, 2001**

**OIG RECOMMENDATION NO. 1:** Develop regulations, in consultation with OGC, on the goals and objectives of the Challenge Cost Share Program.

**FOREST SERVICE MARCH 2001 RESPONSE FOR RECOMMENDATION NO. 1:** The Forest Service concurs with this recommendation. The Deputy Chiefs for National Forest Systems and Operations, working with the Office of General Counsel, will further develop regulations and policy pertaining to the goals and objectives of the Challenge Cost Share Authority, no later than December 31, 2001.

**OIG RECOMMENDATION NO. 2:** Develop and implement procedures to capture and report expenditures for the CCSP in the accounting records of the FS beginning with FY 1999.

**FOREST SERVICE MARCH 2001 RESPONSE FOR RECOMMENDATION NO. 2:** The Forest Service does not concur with this recommendation. All agreements are currently reported through the Forest Service accounting records. This particular recommendation is centered around information submitted by the National Forest System in the FY 2000 and FY 2001 budget justification. However, the Deputy Chiefs for National Forest Systems, Office of Finance and Operations will develop and implement a procedural guide to account for expenditures under partnership arrangements through the NFS budget process beginning FY 03. Upon completion of the grants and agreements piece of the INFRA database, expenditures for all types of instruments (not just assistance types reported under FAADS) will be tracked.

**OIG RECOMMENDATION NO. 3:** With the assistance of the appropriate USDA offices (OCFO and OGC) determine if CCSP agreements are financial assistance. If so, use the FAADS to identify CCSP agreements. FAADS includes 33 items of data including recipient name, purpose of agreements, Federal share, and non-federal share.

**FOREST SERVICE MARCH 2001 RESPONSE FOR RECOMMENDATION NO. 3:** The Forest Service does not concur with this recommendation. The wording in the Department of the Interior and Related Agency Appropriations Act, 1992 (P.L. 102-154), empowers the Forest Service to enter into cooperative arrangements outside of the purview of the Federal Grant and Cooperative Agreements Act of 1977 (31 U.S.C. 6301-6308), thus as "other than assistance" agreements. Under 31 U.S.C. Sections 6301-6305, determining the principal purpose of activities, these cooperative arrangements do not fit the definitions for either a) the direct benefit or use of the Government (procurement), or b) a public purpose of support or stimulation authorized by law (financial assistance). 7 CFR 3015.2 Applicability (June 1997 proposed rewrite) recognizes there are other than Federal Assistance arrangements. Paragraph 7 CFR 3015.2(b) Recipients states "This part does not cover: (2) agreements in which a Federal agency is the recipient or the beneficiary, such as timber sales".

The CCS authority authorizes the acceptance of funds for the benefit of designated Forest Service projects or activities. The CCSP authority also authorizes the Forest Service to provide funds to a cooperator to deliver both a substantial benefit to the Government, and support a public good. This unique two-way flow of funds under the CCSP, precludes the limitation of the arrangements as “financial assistance” only.

Based on the information presented above, the FS does not agree that CCS agreements are financial assistance. Upon completion of the grants and agreements piece of the INFRA database, expenditures for all types of instruments (not just assistance types reported under FAADS) will be tracked.

**OIG RECOMMENDATION NO. 4:** Apply the appropriate USDA regulations (e.g. Title 7, CFR 3016 through 3019) to all CCSP agreements and amend the Forest Service Handbook and manual to require application of the appropriate regulations.

**FOREST SERVICE MARCH 2001 RESPONSE FOR RECOMMENDATION NO. 4:** The Forest Service does not concur with this recommendation. 7 CFR 3015.10 – Authorization and Identification of Federal Assistance Agreements (June 1997 proposed rewrite), 3015.10 (c) (3) states “When an agency’s statutory authority clearly states that the transaction is neither a procurement contract nor a Federal Assistance agreement, or the transaction has been excluded by 3015.2(b), then the transaction is subject only to agency program regulations.

Forest Service policy requires all awards to include a financial plan, a statement of work, and any milestones related to the subject agreement regardless of type. Because the Forest Service does not agree that Challenge Cost Share Agreements are financial assistance, the Uniform Administrative Requirements for Grants and Agreements (7 CFR 3016 and 3019) would not be applicable.

**OIG RECOMMENDATION NO. 5:** Ensure that employees understand cost-sharing requirements and rules regarding improvements made on NFS lands.

**FS MARCH 2001 RESPONSE FOR RECOMMENDATION NO. 5:** The Forest Service concurs with this recommendation. Cost sharing requirements will be emphasized and clarified by issuing a joint letter from the Deputy Chief for National Forest Systems and the Deputy Chief for Operations by July 1, 2001. Clarification of (ownership) of improvements made to Forest Service lands under cost sharing arrangements will also be clarified in the correspondence.

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## ABBREVIATIONS

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CCSP	Challenge Cost Share Program
CFR	Code of Federal Regulations
FAADS	Federal Assistance Awards Data System
FGCAA	Federal Grants and Cooperative Agreements Act
FS	Forest Service
FY	Fiscal Year
NFS	National Forest System
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OMB	Office of Management and Budget
USDA	United States Department of Agriculture