



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

City of Elizabeth, New Jersey - Excess Clean Water State Revolving Funds Claimed

Report No. 08-2-0062

January 23, 2008

Report Contributors:

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Abbreviations

CFR	Code of Federal Regulations
CWSRF	Clean Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
Grantee	City of Elizabeth, New Jersey
OIG	Office of Inspector General
OMB	Office of Management and Budget
SAAP	Special Appropriation Act Project



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) Office of Inspector General conducted a review of earmarked grants known as Special Appropriation Act Projects issued to State, local, and tribal governments. The City of Elizabeth, New Jersey (grantee) was selected for review.

Background

The grantee received EPA Special Appropriation Act Project grant number XP98241301, which provided Federal assistance of \$1,451,800. The grantee was responsible for matching, at a minimum, 45 percent of the eligible project costs. The grantee fulfilled its matching requirement with loans from the New Jersey Department of Environmental Protection. The loans were funded through the Clean Water State Revolving Fund.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2008/20080123-08-2-0062.pdf

City of Elizabeth, New Jersey - Excess Clean Water State Revolving Funds Claimed

What We Found

The grantee claimed and was reimbursed under its Clean Water State Revolving Fund loan \$335,232 in excess of actual costs incurred, contrary to the requirements of Title 40, Code of Federal Regulations, Section 35.3155 (d)(2). The grantee initially paid for all project construction costs using its internal service funds, and was reimbursed with draws from either the State loans or from the EPA grant. The grantee did not associate all reimbursements with contract invoice payments. The over reimbursement was associated with a State of New Jersey loan that was 50-percent funded from the Clean Water State Revolving Fund. These funds could have been made available for use by other potential loan recipients.

What We Recommend

We recommend that the Regional Administrator, EPA Region 2, coordinate with the State to ensure that the grantee immediately repays \$335,232 drawn in excess of actual costs incurred.



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

OFFICE OF
INSPECTOR GENERAL

January 23, 2008

MEMORANDUM

SUBJECT: City of Elizabeth, New Jersey –
Excess Clean Water State Revolving Funds Claimed
Report No. 08-2-0062

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: Alan J. Steinberg
Regional Administrator
EPA Region 2

This report contains a time-critical issue the Office of Inspector General (OIG) identified and recommends recovery of Federal funds drawn down by the recipient. This report represents the opinion of the OIG and does not necessarily represent the final position of the U.S. Environmental Protection Agency (EPA). EPA managers will make final determinations on matters in this report.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$38,479.

Action Required

In accordance with EPA Manual 2750, Chapter 3, Section 6(f), you are required to provide us your proposed management decision for resolution of the finding contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due in 120 days, or on May 21, 2008. To expedite the resolution process, please email an electronic version of your proposed management decision to kasper.janet@epa.gov.

We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>. If you have any questions, please contact Janet Kasper, Director, Assistance Agreement Audits, at (312) 886-3059 or at the email address above.

Purpose

The Office of Inspector General is reviewing Special Appropriation Act Project (SAAP) grants to identify issues warranting further analysis. This includes reviewing the total project costs incurred by selected SAAP grant recipients. During our review of the SAAP grant awarded to the City of Elizabeth, New Jersey (grantee), we identified the following condition that we believe requires immediate attention. The grantee claimed and was reimbursed \$335,232 in excess of actual costs incurred from a Clean Water State Revolving Fund (CWSRF) loan that was used to meet matching requirements of the grant.

Background

EPA Region 2 awarded grant number XP98241301 (grant) to the grantee on September 17, 2001. The purpose of the grant was to provide Federal assistance of \$1,451,800 for a combined sewer overflow abatement project. The scope of the grant included constructing 26 in-line netting facilities and 5 bar screen facilities, and installing about 1,310 linear feet of sanitary sewers and 420 linear feet of storm sewers, to separate combined sewer flow. This project would significantly reduce the amount of solids, floatables, and untreated wastewater being discharged to the Elizabeth River, Arthur Kill waterbody, and Newark Bay. EPA's contribution to the project was 55 percent of approved costs not to exceed \$1,451,800. The grantee was responsible for matching, at a minimum, 45 percent of the eligible project costs or \$1,187,836. The grant's budget period was from October 1, 2001, to June 30, 2003.

The grantee fulfilled its matching requirement through two loans from the New Jersey Department of Environmental Protection. These loans were funded 50 percent from CWSRF funds and 50 percent from New Jersey Environmental Infrastructure Trust funds.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States, with the exception of gaining a complete understanding of internal controls as required under Section 7.11 and information control systems as required under Section 7.59. We did not obtain a complete understanding of the internal control system since the limited nature of our review focused on the source documents that support costs claimed under the grants. We also did not test the recipient's grant drawdown process or process for entering information into its accounting system. Instead, we relied upon the grantee's schedule of revenues and project costs. The schedule was reconciled to the grantee's source documents but was not part of the official accounting system. We did not obtain an understanding of information control systems since the review of general and application controls was not relevant to the assignment objectives. We conducted our field work between June 25, 2007, and October 11, 2007.

We made site visits to the grantee and performed the following steps:

- Conducted interviews of grantee and State of New Jersey personnel;
- Obtained and analyzed the grantee’s electronic and hardcopy accounting files, source documents, bank statements, cancelled checks, and invoices; and
- Obtained and analyzed EPA grant drawdowns, CWSRF and Environmental Infrastructure Trust loan draws, and other related financial data.

Finding

The grantee claimed and was reimbursed under its CWSRF loan \$335,232 in excess of actual costs incurred, contrary to the requirements of Title 40, Code of Federal Regulations (CFR), Section 35.3155 (d)(2). Table 1 provides the details on construction costs incurred and the reimbursements from the various funding sources:

Table 1: Schedule of Construction Costs and Reimbursements

	Amount
Construction Costs Incurred	\$10,151,353
Construction Costs Reimbursed	
EPA Grant XP98241301	\$1,451,800
State of New Jersey Loan – S-340-942-02	1,578,435
State of New Jersey Loan – S-340-942-03	7,456,350
Total Reimbursements for Construction Costs	\$10,486,585
Excess Reimbursements Over Construction Costs	\$335,232

Source: Contractor invoices and grant and loan draws from City of Elizabeth files.

Under Title 40 CFR 35.3155 (d)(2), the assistance recipient must first incur a cost to draw cash, and the draws will be available only up to the amount of payments made. Since the grantee only incurred costs and made payments of \$10,151,353, the grantee was not entitled to the additional \$335,232 drawn under the loan.

The grantee initially paid for all project construction costs using its internal funds and was reimbursed with draws from either the State loans or the EPA grant. The grantee did not associate all reimbursements with contractor invoice payments. For this reason, reimbursements for construction costs were based on the “first in first out” accounting method that applies the reimbursements first to the earliest funding sources received by the grantee for construction costs. The last funding source the grantee received was State loan number S-340-942-03, which was 50-percent funded from the CWSRF. The grantee received \$335,232 from loan number S-340-942-03 in excess of the construction costs incurred. The State could have made this amount available to other loan recipients in need of funding. As a result, we have questioned the \$335,232 received in excess of the construction costs incurred.

Recommendation

1. We recommend that the Regional Administrator, EPA Region 2, coordinate with the State of New Jersey to ensure that the City of Elizabeth immediately repays \$335,232 drawn in excess of actual costs incurred.

Grantee and Region 2 Comments

On November 27, 2007, an exit conference was held with the grantee, Region 2, and State of New Jersey officials. The grantee concurs with the audit finding and will work with the New Jersey Department of Environmental Protection to identify other allowable costs to offset the questioned costs in the audit report.

Office of Inspector General's Response

Our position remains unchanged since the grantee concurred with the finding.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	2	Coordinate with the State of New Jersey to ensure that the City of Elizabeth immediately repays \$335,232 drawn in excess of actual costs incurred.	O	Regional Administrator, EPA Region 2	05/21/2008	\$335	

¹ O = recommendation is open with agreed-to corrective actions pending.
 C = recommendation is closed with all agreed-to actions completed.
 U = recommendation is undecided with resolution efforts in progress.

Distribution

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