OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Borough of Carteret, New Jersey - Unallowable Costs Claimed Under EPA Grant XP98247001

Report No. 08-2-0084

February 20, 2008

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Abbreviations

CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FSR	Financial Status Report
Grant	Grant No. XP98247001
Grantee	Borough of Carteret, New Jersey
OIG	Office of Inspector General
OMB	Office of Management and Budget
Region	Environmental Protection Agency Region 2
SAAP	Special Appropriation Act Project

Cover photo: Stormwater holding pond at the Hill District Stormwater Pumping Station. Picture taken by OIG staff in August 2007.

U.S. Environmental Protection Agency
Office of Inspector General

08-2-0084
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At a Glance

Catalyst for Improving the Environment

Why We Did This Review

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

Background

In 2001, the Borough of Carteret received an EPA Special Appropriation Act Project grant, XP98247001. The purpose of the grant was to provide Federal assistance of $1,451,800 for constructing sanitary and stormwater sewer system improvements. The Borough of Carteret was required to provide local matching funds equal to 45 percent of the EPA-awarded funds

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/2008/20080220-08-2-0084.pdf

Borough of Carteret, New Jersey - Unallowable Costs Claimed Under EPA Grant XP98247001

What We Found

The Borough of Carteret, New Jersey (grantee), did not meet the Title 40 Code of Federal Regulations Part 31 requirements for financial management systems. Based on directions from EPA, the grantee claimed $1,360,429 in costs for reimbursement for work that was not within the scope of the original project. The grantee also claimed up to $214,962 in unallowable pre-award costs. The final Financial Status Report did not accurately reflect the project's cumulative total outlays. The grantee also incurred additional project costs that EPA has not reviewed for eligibility and could have been claimed.

What We Recommend

We recommend that the Regional Administrator, EPA Region 2:

1. Sustain the questioned costs of $1,575,391, consisting of:
   a. $1,360,429 in out-of-scope project costs.
   b. $214,962 in unallowable pre-award costs.

   The Region can consider amending the grant period or the scope of work during the resolution of questioned costs.

2. Request that the grantee provide a revised final Financial Status Report that reflects the actual amount of cumulative total outlays.

3. Review unclaimed costs of $1,286,668 for potential eligibility.

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

OFFICE OF
INSPECTOR GENERAL

February 20, 2008

MEMORANDUM

SUBJECT: Borough of Carteret, New Jersey - Unallowable Costs Claimed Under EPA Grant XP98247001
Report No. 08-2-0084

FROM: 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. 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 $51,628.

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 June 19, 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 Borough of Carteret, New Jersey (grantee), we identified the following condition that we believe requires immediate attention. The grantee submitted drawdown requests to the U.S. Environmental Protection Agency (EPA) for reimbursement of pre-award and ineligible costs that are contrary to the requirements of Office of Management and Budget (OMB) Circular A-87 and Title 40 Code of Federal Regulations (CFR) Part 31.

Background

Grant No. XP98247001 (grant) was awarded on September 19, 2001. The purpose of the grant was to provide Federal assistance of $1,451,800 for constructing sanitary and stormwater sewer system improvements. The amount represents EPA's contribution of up to 55 percent of the eligible project costs, and is limited by the amount of the congressional appropriation. The grantee was responsible for matching, at a minimum, 45 percent of the eligible project costs. Total project costs under the grant were $3,650,000. The grant was amended to adjust the budget, and project period for the grant was October 1, 2001, to December 31, 2006. The grant application for the original award and subsequent amendments listed nine sanitary and stormwater sewer projects that would be funded under the grant. The following projects were to be completed under the grant:

- Hill District Stormwater System Improvement Project
- Hill District Sanitary Sewer Rehabilitation Project
- Suspect Areas Sewer Separation and Improvements Project
- West Carteret Sanitary Sewer Rehabilitation Project
- Manhole Rehabilitation, Phase II Project

The grantee did not complete the following projects listed in the grant application:

- Hermann Street Sanitary Sewer Replacement
- Harrison Avenue Area Sanitary Sewer Rehabilitation
- Chrome Area Sanitary Sewer Rehabilitation
- Central Carteret Sanitary Sewer Rehabilitation

Scope and Methodology

We conducted our audit from August 6, 2007, to September 7, 2007 in accordance with generally accepted government auditing standards, 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 test the recipient's 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 made site visits to the grantee and performed the following steps:

- Obtained and reviewed EPA Region 2 (Region) project files.
- Conducted interviews of the grantee.
- Obtained and analyzed the grantee's source documents, bank statements, cancelled checks, and invoices.
- Obtained and analyzed EPA grant draws and other related financial data.

Finding

The grantee did not meet the Title 40 CFR 31 requirements for financial management systems. In particular, the grantee:

- claimed costs for projects not listed in the grant application, based upon the advice of the Region, even though the grantee advised the Region that the project was not complete and additional eligible project costs would be incurred;
- claimed unallowable pre-award costs; and
- submitted an inaccurate final Financial Status Report (FSR).

The grantee also incurred additional project costs that EPA has not reviewed for eligibility and could have been claimed.

Ineligible Project Costs

Based on directions from EPA, the grantee claimed costs for work that was not within the scope of the original project. The grantee included costs for reimbursement for work on the Hayward Avenue Sanitary Sewer Pump Station, which is not included in the scope of the work under the grant agreement. Grantee officials stated that the Region directed them to submit the Hayward Avenue Pump Station invoices for reimbursement. The grantee advised the Region that the original project was not complete and they had planned on using the grant funds on the remaining work. The Region told the grantee that since the project was for similar sewer related improvements, the Hayward Avenue Sanitary Sewer Pump Station invoices should be submitted for reimbursement so the grant could be closed out.

The costs for the Hayward Avenue Sanitary Sewer Pump Station, $1,360,429, are ineligible for reimbursement based on the grant agreement's administrative conditions

and Title 40 CFR 31.30. Administrative Condition #2 of the original grant award states that the grantee must apply for and receive a formal grant amendment from the Regional Administrator before implementing any changes to the project's scope. The Hayward Avenue Pump Station project was not added to the grant's scope of work through Amendment 1 or 2 of the grant. Amendment 1 added the West Carteret Sanitary Sewer Rehabilitation project while Amendment 2 extended the grant's budget period. No other projects were added to the nine included through Amendment 1. Title 40 CFR 31.30, Section (d), also states that the grantee must obtain prior approval of the awarding agency whenever any revisions of the scope or objectives of the project are made. Therefore, the Hayward Avenue Pump Station costs of $1,360,429 are questioned.

Unallowable Pre-award Costs

The grantee claimed up to $214,962 in pre-award costs that are unallowable costs under the grant administrative conditions and OMB Circular A-87. Administrative Condition #1 of the grant states that "…any project costs incurred prior to midnight of the date preceding grant award shall be unallowable in their entirety." All terms and conditions included in the original grant award remained in effect and were incorporated in both Amendments 1 and 2. OMB Circular A-87, Attachment B, Section 31, defines pre-award costs as those costs incurred prior to the effective date of the award, which are necessary and allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency. The grantee did not obtain written approval of the EPA for the pre-award costs. The first invoice for $78,236 was submitted to the grantee on September 17, 2001, which predates the beginning of the grant budget and project period of October 1, 2001. The second invoice for $136,726 was submitted on October 15, 2001, and contains costs incurred from September 16, 2001, through October 15, 2001. The costs incurred prior to October 1, 2001, could not be determined. EPA reviewed both invoices before the grantee was reimbursed, but did not question the pre-award costs. Therefore, the pre-award costs of $214,962 ($78,236 and $136,726) are questioned.

Inaccurate Final Financial Status Report

The final FSR did not accurately reflect the project's cumulative total outlays, contrary to the requirements of Title 40 CFR 31.20 (b) (1). An interim final FSR was submitted on October 24, 2006, reporting $2,898,691 in cumulative total outlays. The interim FSR is supported by invoices submitted under the grant's drawdown requests. On February 27, 2007, the grantee submitted a final FSR to the Region even though the project was not complete. The final FSR was submitted because one was required 90 days after the end of the project period, December 31, 2006. Based upon advice from the Region, the grantee reported $3,650,000 in cumulative total project outlays. This amount is inaccurate based on review of the grantee's project-related invoices, which totaled $4,185,359 in project costs. Under Title 40 CFR 31.20 (b) (1), the grantee must make accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant. Therefore,

the final FSR is inaccurate and a revised FSR reflecting actual project costs should be submitted.

Potentially Eligible Project Costs

The grantee incurred an additional $1,286,668 in potentially eligible project costs that EPA has not reviewed or considered for grant reimbursement. As previously noted, these costs were not included because the Region directed the grantee to submit the Hayward Avenue Sanitary Sewer Pump Station invoices instead. These project costs are supported by adequate source documents and were for the Hill District Sanitary Sewer Rehabilitation Project, which was part of the grant's scope of work. Since the grant is officially closed and the costs were never submitted to EPA, we cannot offset other costs questioned with unclaimed costs. However, we recommend that EPA review these additional costs during the audit resolution process.

Recommendations

We recommend that the Regional Administrator, EPA Region 2:

1. Sustain the questioned costs of $1,575,391, consisting of:

    a. $1,360,429 in out-of-scope project costs.

    b. $214,962 in unallowable pre-award costs.

    The Region can consider amending the grant period or the scope of work during the resolution of questioned costs.

2. Request that the grantee provide a revised final FSR that reflects the actual cumulative total outlays.

3. Review unclaimed costs of $1,286,668 for potential eligibility

Region 2's and Auditee's Comments

On January 10, 2008, an exit conference was held with the grantee. In general, the grantee did not concur with the findings and recommendations in the draft report. The grantee did not think that the out-of-scope project costs should be considered ineligible because the Region directed them to include those costs. The out-of-scope project cost documents were approved by the Region. The grantee would like the Region to amend the grant agreement to include these costs. The grantee did not agree that the final FSR was unsubstantiated given the fact that it had provided invoices in excess of the reported cumulative total outlays. The grantee relied heavily on the advice of the Region when preparing the final FSR. In regard to pre-award costs, the grantee agreed that the first invoice should not be allowed since it was incurred before the grant period. However, the grantee did not agree that the entire amount of the second invoice should be

disallowed since a portion of those costs were incurred after the grant period started. The grantee also disagreed with some of the language used in the findings and recommendation sections of the report.

On January 10, 2008, an exit conference was also held with the Region. The Region agreed that the report was factually accurate. The Region is willing to work with the grantee to amend the grant project period and/or the scope of the workplan as well as review additional costs which were not claimed.

OIG Response

Based upon the grantee's comments, changes were made to the FSR findings and the recommendations. In particular, the FSR section was revised to reflect that the final FSR did not reflect actual outlays. We changed the language in the recommendations to provide alternatives to the Region during the audit resolution process.

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	4	Sustain the questioned costs of $1,575,391, consisting of a. 1,360,429 in out-of-scope project costs. b. $214,962 in unallowable pre-award costs. The Region can consider amending the grant period or the scope of work during the resolution of questioned costs.	O	Regional Administrator, Region 2		$1,575	
2	4	Request that the grantee provide a revised final FSR that reflects the actual amount of cumulative total outlays.	O	Regional Administrator, Region 2			
3	4	Review unclaimed costs of $1,286,668 for potential eligibility.	O	Regional Administrator, Region 2			

[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

Appendix A

Distribution

Regional Administrator, Region 2
Director, Office of Wastewater Management, Office of Water
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