



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Close-Out of Complaint on Metropolitan Water Reclamation District of Greater Chicago Incurring Inappropriate Expenses on Recovery Act Projects

Report No. 12-X-0090

November 22, 2011



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At a Glance

Why We Did This Review

We received a complaint that the Metropolitan Water Reclamation District of Greater Chicago may have used noncompetitive practices when procuring bond underwriting contracts and incurred excessive or inappropriate expenses on American Recovery and Reinvestment Act of 2009 (Recovery Act)-funded projects.

Background

According to the U.S. Environmental Protection Agency (EPA), Region 5, the State of Illinois used a combination of Clean Water State Revolving Fund (CWSRF) and Recovery Act funds to provide \$20 million for four district projects. The Recovery Act provided \$10,000,001 of the total \$20 million. The Recovery Act funding consisted of \$5,000,002 in principal forgiveness and \$4,999,999 in loans. The CWSRF portion was also a loan.

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

The full report is at:
www.epa.gov/oig/reports/2012/20111122-12-X-0090.pdf

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What We Found

Our review did not disclose any indication of misuse of funds provided to the district by Illinois' CWSRF loans or Recovery Act funds provided through EPA. The types of costs mentioned in the complaint were not included in the amounts paid to the district by the CWSRF. According to state personnel, most, if not all, of the funding administered through the CWSRF was for construction-related expenses. The CWSRF and Recovery Act funds did not pay for professional services contracts or other administrative costs such as training, travel, entertainment, or conference expenses.

Since we did not find any indication that the district misused CWSRF or Recovery Act funds, we have closed the complaint and plan no further action on this matter.



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

THE INSPECTOR GENERAL

November 22, 2011

MEMORANDUM

SUBJECT: Close-Out of Complaint on Metropolitan Water Reclamation District of Greater Chicago Incurring Inappropriate Expenses on Recovery Act Projects Report No. 12-X-0090

FROM: Arthur A. Elkins, Jr.
Inspector General

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

TO: Susan Hedman
Regional Administrator, Region 5

We have closed the complaint that the Metropolitan Water Reclamation District of Greater Chicago may have used noncompetitive practices when procuring bond underwriting contracts and incurred excessive or inappropriate expenses on American Recovery and Reinvestment Act of 2009 (Recovery Act)-funded projects. We concluded that U.S. Environmental Protection Agency (EPA) funds were not used for any of the expenses in question. We also referred questions about the Build America Bond program to the Treasury Inspector General for Tax Administration.

To assess the complaint, we performed the following procedures:

- Interviewed personnel from Region 5, the Illinois Environmental Protection Agency, and the district
- Obtained a list of the funding that the district had received from the Illinois Clean Water State Revolving Fund (CWSRF) since July 2005
- Determined whether the amounts paid for with CWSRF or Recovery Act funds included any costs for contracts with bond underwriters and/or financial advisors, training expenses, travel and entertainment expenses, or conferences

Our review did not disclose any indications of misuse of funds provided to the district by the CWSRF loans or Recovery Act funds provided through EPA. The types of costs mentioned in the complaint were not included in the amounts paid to the district by the CWSRF. According to

personnel at the Illinois Environmental Protection Agency, most, if not all, of the funding administered by the CWSRF was for construction-related expenses. The CWSRF did not fund professional services contracts, or other administrative costs such as training, travel, entertainment, or conference expenses.

According to Region 5, the CWSRF funded 16 district projects since 2005 with either loans or a combination of loans and principal forgiveness. Four of the 16 projects included funding authorized by the Recovery Act. Total CWSRF loans for the four projects were \$20,000,000. The Recovery Act provided \$10,000,001 of the total \$20 million. The \$10,000,001 in Recovery Act funding consisted of \$5,000,002 in principal forgiveness and \$4,999,999 in loans. We reviewed reimbursement claims for the four Recovery Act-funded loans. As of the dates of our review, June 21 and June 22, 2011, total claims for reimbursement were \$18,485,500. None of the four projects we reviewed included expenses for bond underwriters, financial advisors, travel, entertainment, training, or conferences. The amounts reimbursed included only construction costs and associated construction contingency.

The district issued capital bonds under the Recovery Act's Build America Bond program. Under this program, the U.S. Treasury will reimburse government agencies for 35 percent of their interest expense on the bonds. On April 29, 2010, the District received notice of an informal inquiry relating to the 2009 Bonds by the United States Securities and Exchange Commission (SEC). The SEC requested production of all documents related to the issuance and sale of the 2009 Bonds. Further, on September 24, 2010, the Internal Revenue Service notified the district of a routine examination of Build America bonds issued by the district during 2009 to determine compliance with federal tax requirements. Since the Build America Bond program is outside our authority to review, we referred questions about this program to the Treasury Inspector General for Tax Administration for consideration.

We provided a draft copy of this memorandum to the Illinois Environmental Protection Agency, Infrastructure Financial Assistance Section, and the Metropolitan Water Reclamation District of Greater Chicago for review. Both organizations agreed with the contents of the memorandum.

Because this report contains no recommendations, you are not required to respond to this report. The report will be made available at <http://epa.gov/oig>. If you or your staff have any questions regarding this report, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899 or heist.melissa@epa.gov; or Robert Adachi, Product Line Director, at (415) 947-4537 or adachi.robert@epa.gov.

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
No recommendations							

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

Distribution

Regional Administrator, Region 5
Agency Follow-Up Official (the CFO)
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Public Affairs Officer, Region 5
Manager, Infrastructure Financial Assistance Section, Illinois Environmental Protection Agency
Executive Director, Metropolitan Water Reclamation District of Greater Chicago
General Counsel, Metropolitan Water Reclamation District of Greater Chicago