



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

# Close-Out of Hotline Complaint on Unreasonable Cost Increase to the Wastewater Treatment Facility Improvements, Perkins, Oklahoma

Report No. 12-X-0161

December 29, 2011



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**Report Contributors:**

Bill Spinazzola  
Michael Rickey

## Hotline

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1200 Pennsylvania Avenue NW  
Mailcode 2431T  
Washington, DC 20460



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

THE INSPECTOR GENERAL

December 29, 2011

**MEMORANDUM**

**SUBJECT:** Close-Out of Hotline Complaint on Unreasonable Cost Increase to the Wastewater Treatment Facility Improvements, Perkins, Oklahoma  
Report No. 12-X-0161

**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.

**TO:** Al Armendariz  
Regional Administrator, Region 6  
U.S. Environmental Protection Agency

We have closed a hotline complaint that project costs increased unreasonably due to American Recovery and Reinvestment Act of 2009 (Recovery Act) requirements because we found no evidence to support the complaint. According to the complaint, project costs increased by about 40 percent when the Perkins Public Works Authority added the Recovery Act's Buy American and Wage Rate requirements, while other projects only increased by about 5 percent.

To assess the complaint, we performed the following procedures:

- Interviewed the following individuals: Perkins city manager and contact point for the Perkins Public Works Authority; vice president for the Public Works Authority's consulting engineer for design and construction services; the construction company's vice president; construction employees; the public works authority's financial advisor; the chief and assistant chief of the Financial Assistance Division, Oklahoma Water Resources Board; and representatives from EPA's Region 6 and Office of Water.
- Analyzed pertinent documents, including the loan application and loan agreement; construction bids; construction contract; certified construction payrolls; cost estimates from the engineering report and revised engineering report, dated March 3, 2008, and May 10, 2008, respectively; and state-provided bid information on projects in Mustang, Moore, and Sallisaw, Oklahoma.

Total estimated project costs increased significantly after the six sealed construction bids were opened in May 2009. The lowest construction bid of \$5.9 million was almost 48 percent higher than the design engineer's estimated construction costs used in the public works authority's loan application. The design engineer's construction estimate used in the application was prepared in March 2008, about 14 months before the sealed construction bids were opened. The higher construction costs increased other project costs as well. For example, costs for engineering and construction staking were based on a percentage of the construction cost. Fees for the bond counsel, local counsel, and financial advisor were based on a percentage of the loan amount, which increased as a result of higher construction costs.

We were not able to determine why the contracted construction costs were so much higher than the engineer's initial estimates used in the loan application because of a lack of comparative data. The initial estimates and the lump sum construction bids did not include detail or common components that could be compared. Without some data similarities between the engineer's construction estimates and the construction bid, there is no way to compare and find variances. Neither the contractor nor the engineer could offer an explanation for the large difference.

Although the lowest construction bid was substantially higher than the engineer's original estimate, we found no evidence that Recovery Act requirements caused this large increase. The Recovery Act's wage requirement had no effect because the contractor paid its construction employees higher wages than those required. The impact of the Buy American requirement was unknown because the contractor only requested prices for American-made goods, as required by the Recovery Act.

Further, the Oklahoma Water Resources Board obtained information on the increase in costs for three other projects in the state when Recovery Act requirements were added. These three projects averaged less than a 4 percent increase in construction costs with Recovery Act requirements. The Perkins Public Works Authority only requested bids with Recovery Act requirements included because it knew that Recovery Act funds were available for the project. Therefore, the bids did not have costs with and without Recovery Act requirements like some other Oklahoma projects.

Because we did not find any indication that Recovery Act requirements increased project costs, we have closed the complaint, and plan no further action on this matter.

## **Action Required**

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](mailto:heist.melissa@epa.gov); or Robert Adachi, Product Line Director, at (415) 947-4537 or [adachi.robert@epa.gov](mailto:adachi.robert@epa.gov).

## ***Distribution***

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City Manager, Perkins, Oklahoma