



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Unallowable Federal Funds Drawn on EPA Grant No. XP98247201 Awarded to the Wayne County Water and Sewer Authority, New York

Report No. 08-2-0045

December 17, 2007



Report Contributors:

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Abbreviations

| | |
|---------|--|
| EPA | U.S. Environmental Protection Agency |
| Grant | Grant No. XP9824720 |
| Grantee | Wayne County Water and Sewer Authority, New York |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |

Cover photo: Reed Pond at Red Creek Regional Waste Water Treatment Plant
(taken by OIG staff in June 2007).



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 local and tribal governments. We selected the Wayne County Water and Sewer Authority, New York, for review.

Background

The Wayne County Water and Sewer Authority received an EPA Special Appropriation Act Project grant, Grant No. XP98247201. The purpose of the grant was to provide Federal assistance of \$4,350,000 for designing and constructing a 500,000 gallon per day regional wastewater treatment plant and sewer line in the Town of Wolcott, New York. The Wayne County Water and Sewer Authority 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/2008/20071217-08-2-0045.pdf

Unallowable Federal Funds Drawn on EPA Grant No. XP98247201 Awarded to the Wayne County Water and Sewer Authority, New York

What We Found

The Wayne County Water and Sewer Authority (grantee) claimed and was reimbursed for preaward costs of \$276,268 that are unallowable under Federal regulations and the grant terms and conditions. As a result, EPA will need to recover \$151,947 under Grant No. XP98247201.

The grantee's financial management system does not provide accurate information to ensure costs are claimed in accordance with Federal regulations. We found four instances of inaccurate disclosures. As a result, we had no assurance that the costs were not being claimed more than once or that the grantee was complying with the funding or matching requirements for the various funding sources.

What We Recommend

We recommend that the Regional Administrator, EPA Region 2:

1. Obtain recovery of \$151,947 in unallowable preaward costs under Grant No. XP98247201.
2. Require the grantee to reconcile costs claimed for each of the sources of funding to ensure that financial reports are accurate and costs claimed in accordance with grant requirements.



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

OFFICE OF
INSPECTOR GENERAL

December 17, 2007

MEMORANDUM

SUBJECT: Unallowable Federal Funds Drawn on EPA Grant No. XP98247201
Awarded to the Wayne County Water and Sewer Authority, New York
Report No. 08-2-0045

FROM: Melissa M. Heist
Assistant Inspector General for Audit

Melissa M. Heist

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 \$44,093.

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 April 15, 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

During our review of Special Appropriation Act Projects, certain conditions came to our attention which we believe require your immediate action. In particular, we found that the Wayne County Water and Sewer Authority (grantee) claimed and was reimbursed for unallowable preaward costs.

Background

Grant No. XP98247201 (grant) was awarded on September 17, 2001. The purpose of the grant was to provide Federal assistance for designing and constructing a 500,000 gallon per day regional wastewater treatment plant and sewer lines in the Town of Wolcott, New York. This facility will serve the Village of Red Creek, the Butler Correctional Facility, the Red Creek Central Schools, the Village of Fair Haven, and the Fair Haven Beach State Park in Cayuga County. The initial award was for \$2,903,600, and was amended twice, increasing the grant amount to \$4,350,000. The \$4,350,000 represents EPA's contribution of up to 55 percent of the eligible project costs of \$7,909,091. The grantee was responsible for the remaining 45 percent of the eligible project costs. The grant's project period was from October 1, 2001, to May 31, 2007. As of May 31, 2007, the grantee had incurred project costs of \$7,619,861 and received \$3,939,565 under the grant.

Scope and Methodology

We performed our examination in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States, with the exception of understanding information control systems as required under Section 7.23 and a complete understanding of internal controls as required under Section 7.16. 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 also did not obtain a complete understanding of the internal control system. Instead, we gained a general understanding of the processes the recipient used to account for funds and focused our review on the source documents that support costs claimed under the grant. We did not test the recipient's grant drawdown process or test the recipient's process for entering information into its accounting system. We conducted our field work between June 4, 2007, and July 23, 2007.

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

- Reviewed project files;
- Analyzed the grantee's electronic accounting files;
- Reviewed the grantee's accounting records: invoices, bank statements, cancelled checks, and the board minutes; and
- Toured the wastewater treatment plant built under the grant.

Findings

The grantee claimed preaward costs that are unallowable under Federal regulations and the grant terms and conditions. The grantee's financial management system does not provide accurate information to ensure costs are claimed in accordance with Federal regulations and grant terms and conditions. As a result, EPA will need to recover \$151,947 under Grant No. XP98247201.

Unallowable Preaward Costs

The grantee claimed \$276,268 of preaward costs for engineering services that are unallowable under the grant administrative conditions and Office of Management and Budget 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.

Although grant amendment 2 approved engineering costs, the amendment did not contain any approval of preaward costs. Office of Management and Budget 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 the written approval of the EPA. Therefore, the preaward engineering cost of \$276,268 is unallowable, resulting in the Federal share of \$151,947 being questioned (55 percent of the total amount of \$276, 268).

Financial Management Improvements Needed

The grantee needs to improve its process for claiming costs under Federal grants. Title 40 Code of Federal Regulations 31.20(b)(1) requires that a grantee's financial management system provide accurate disclosure of financially assisted activities in accordance with grant report requirements and that costs be claimed in accordance with the grant terms. The grantee received funding from three sources: an EPA grant, a Clean Water State Revolving Fund loan, and a State of New York Environmental Bond Act grant. During the review, we noted the following instances:

- An invoice was claimed twice, once from the grant and a second time from the State Revolving Fund loan. The grantee adjusted the costs claimed under the EPA grant after we identified the error.
- State Revolving Fund loans were used as matching funds for both the EPA grant and the New York State Environmental Bond Act grant, contrary to the State of New York requirements.
- An EPA grant amount was being claimed as matching funds for the New York State Environmental Bond Act grant, contrary to State of New York requirements.

These problems occurred because the grantee had different consultants preparing reimbursement requests from various funding sources. As a result, we had no assurance that the costs were not

being claimed more than once or that the grantee was complying with the funding or matching requirements for the various funding sources. As of December 10, 2007, funds of \$317,819 are still available under the grant. Prior to closing out the grant, the grantee needs to reconcile costs claimed for each of the sources of funding to ensure that financial reports are accurate and costs claimed in accordance with grant requirements.

Recommendations

We recommend that the Regional Administrator, EPA Region 2:

1. Obtain recovery of \$151,947 in unallowable preaward costs under Grant No. XP98247201.
2. Require the grantee to reconcile costs claimed for each of the sources of funding to ensure that financial reports are accurate and costs claimed in accordance with grant requirements.

Grantee and Region 2 Comments

On October 29, 2007, we held an exit conference with the grantee. The grantee understood and agreed with the factual accuracy of the preaward costs questioned. It was, however, the grantee's understanding that Region 2 officials allowed the preaward costs through the approval of the grant amendment. The grantee stated it would accept any determination made by Region 2 officials to resolve the preaward costs questioned. The grantee agreed to reconcile the costs claimed at the end of the project.

On October 29, 2007, the OIG held an exit conference with Region 2 representatives to obtain the Region's comments on factual accuracy of the draft report. Region 2 officials agreed that the grant did not allow preaward costs and that Office of Management and Budget Circular A-87 does require written approval.

OIG's Response

Our position remains unchanged since the grantee and Region 2 did not dispute the facts presented in this report.

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 | 3 | Obtain recovery of \$151,947 in unallowable preaward costs under Grant No. XP98247201. | | Regional Administrator, EPA Region 2 | | \$152 | |
| 2 | 3 | Require the grantee to reconcile costs claimed for each of the sources of funding to ensure that financial reports are accurate and costs claimed in accordance with grant requirements. | | Regional Administrator, EPA 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.

Distribution

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