



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Region 10 Took Adequate Corrective Actions for Alaska Village Safe Water Program

Report No. 09-P-0085

January 21, 2009



Report Contributors:

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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IHS	Indian Health Service
MATS	Management Audit Tracking System
OIG	Office of Inspector General
OAM	Office of Acquisition Management
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
USDA	U.S. Department of Agriculture
VSW	Village Safe Water

Cover photo: Sewage pipe system in an Alaska village (EPA photo).



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We performed this follow-up review to determine whether the U.S. Environmental Protection Agency (EPA) Region 10 implemented corrective actions it agreed to take in response to the Fiscal Years (FYs) 2003 and 2004 single audit reports and 2006 Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) review. We also determined whether the actions addressed, or will address, the issues in the reports.

Background

On July 26, 2006, the EPA Office of Inspector General (OIG) issued two single audit reports to EPA Region 10 regarding the State of Alaska Department of Environmental Conservation Village Safe Water Program. The reports supported the single audit findings and recommended various corrective actions. The most recent PART review noted various deficiencies.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090121-09-P-0085.pdf

EPA Region 10 Took Adequate Corrective Actions for Alaska Village Safe Water Program

What We Found

We found that Region 10 had adequately followed up on each of the findings and recommendations from the single audit reports. The Region has implemented corrective actions for the most recent OMB PART review findings. The corrective actions taken by the Region should address the issues identified in the single audit reports and PART review.

One corrective action is not complete. To address concerns with the State of Alaska's monitoring subrecipients, the State performed an independent review of reconciling project costs by the Alaska Native Tribal Health Consortium (the Consortium). As part of its corrective action plan, the Region agreed to follow up on the findings from the independent review. The Region had planned on doing the follow-up as part of the next annual review in November 2008. However, the follow-up review was delayed and is now expected to be completed by October 1, 2009. Region 10 concurred with the OIG findings and will continue to follow up on implementing the State's review findings.

What We Recommend

We recommended that the EPA Region 10 Regional Administrator track the corrective action for follow-up on the independent review of the Alaska Native Tribal Health Consortium by re-entering it in the Management Audit Tracking System. The Region subsequently reopened the Management Audit Tracking System to track the corrective action. EPA's response to our recommendation is adequate and should address our report finding.



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

OFFICE OF
INSPECTOR GENERAL

January 21, 2009

MEMORANDUM

SUBJECT: EPA Region 10 Took Adequate Corrective Actions for
Alaska Village Safe Water Program
Report No. 09-P-0085

FROM: Melissa M. Heist
Assistant Inspector General for Audit

Melissa M. Heist

TO: Michelle Pirzadeh
Acting Regional Administrator
Region 10

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains results of our review. It represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

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 \$114,006.

Action Required

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. We request that the Agency provide us with documentation when the next independent review is complete (anticipated for October 1, 2009). 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 or your staff have any questions, please contact Janet Kasper, Director, Contracts and Assistance Agreements Audits, at 312-886-3059 or kasper.janet@epa.gov.

Table of Contents

Purpose	1
Background	1
<i>Fiscal Years 2003 and 2004 Single Audit Reports</i>	1
<i>2006 PART Review</i>	2
Scope and Methodology	2
Noteworthy Achievements	2
Results of Review	2
<i>EPA Adequately Implemented Single Audit Corrective Actions</i>	2
<i>EPA Has Been Responsive to PART Recommendations</i>	5
<i>MATS Tracking Was Still Needed</i>	7
Recommendation	7
Agency Response	7
OIG Evaluation	7
Status of Recommendations and Potential Monetary Benefits	8

Appendices

A Agency Response	9
B Distribution	11

Purpose

The objective of our audit was to determine whether EPA Region 10 implemented corrective actions it agreed to take in response to the Fiscal Years (FYs) 2003 and 2004 single audit reports and the 2006 Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) review. We also determined whether EPA's actions addressed, or will address, the issues in the reports.

Background

In FY 1995, Congress funded a grant program to assist Alaska native villages and rural communities with constructing new or improved drinking water and wastewater systems. This funding can also be used to provide training and technical assistance in operating and maintaining these systems. Significant human health and water quality problems exist in these communities, due to unacceptable sanitation conditions.

According to a draft EPA document, through 2007, EPA has provided \$394 million to the Alaska Department of Environmental Conservation (State) to address the needs of both rural and native Alaska communities. EPA Region 10 awards grant funds to the State, which administers these funds through its Village Safe Water (VSW) Program. The VSW Program's goal is to improve public health and compliance with environmental laws by upgrading the level of sanitation facilities in rural communities through financial and technical assistance. The VSW Program uses a priority list to identify community projects eligible for funding.

Fiscal Years 2003 and 2004 Single Audit Reports

The Single Audit Act of 1984 established uniform entity-wide audit requirements for State and local governments receiving federal financial assistance. The State of Alaska Division of Legislative Audit performed the FY 2003 and 2004 single audits for the State. The single audit reports questioned all labor costs under the VSW Program for those years of almost \$2.3 million, and reported that:

- Labor costs were not properly charged to grants,
- Claimed project costs were advances and not actual costs,
- Dividend and interest income was earned on federal funds, and
- Oversight of funds transferred to a consortium was insufficient.

In fulfilling the requirements of the Single Audit Act, the Office of Inspector General (OIG) reviews and disseminates the results of single audits to responsible EPA officials. The OIG conducted additional field work to further develop the findings and recommendations in the single audit reports. On July 26, 2006, the OIG issued two single audit reports to EPA regarding the VSW Program.

2006 PART Review

OMB developed the PART to assess and improve program performance so that the Federal Government can achieve better results. A PART review helps identify strengths and weaknesses of programs so that decision makers can make programs more effective. The 2006 OMB PART review found that the VSW Program performance was adequate, but deficiencies were noted.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our audit field work from June to November 2008.

The focus of our follow-up review was on corrective actions in response to the FYs 2003 and 2004 single audits and 2006 OMB PART review. We reviewed guidance documents, prior OIG and State single audit reports. To determine what corrective actions have been taken to address the findings and recommendations in the single audits and PART review, we performed the following steps in Region 10:

- Conducted interviews of EPA Region 10 staff regarding the audit resolution and PART corrective actions,
- Interviewed the former OMB PART reviewer,
- Interviewed Alaska Department of Environmental Conservation and Legislative Audit staff, and
- Reviewed and analyzed regional documentation related to the audit resolution and PART corrective actions.

Noteworthy Achievements

Region 10 instituted a new Management Controls Policy effective June 26, 2007. The policy establishes and maintains internal controls to ensure that funded projects are properly monitored and completed within timeframes. In particular, the policy requires an annual review of stalled projects so that funding can be reallocated for the benefit of other projects. As of June 2008, the project officer reported that funding in excess of \$5 million was reallocated from 10 stalled projects to projects that needed supplemental funding to complete the original scope of work. This reallocation allows timely completion of other projects.

Results of Review

EPA Adequately Implemented Single Audit Corrective Actions

The 2003 and 2004 single audits identified problems with labor charging, accounting for project costs, dividend and interest income earned on EPA funds, and oversight of a Consortium. As a

result, the OIG made several recommendations to correct the deficiencies. The Region and State have subsequently taken, and continue to take, corrective actions to address the issues identified in the single audits.

Labor Charging Improved

The 2003 and 2004 single audits found that the State was not properly charging labor costs to the grants. First, the State allocated labor charges to various grants based on budgets, rather than to the projects on which the employees actually worked. Second, employee timesheets identified costs to the VSW program, but not the specific grant. Third, personnel costs associated with the VSW program were charged to the EPA grant, even though the U.S. Department of Agriculture (USDA) also provided funding for the program. Last, the State needed an approved indirect cost rate for charging non-engineering employee time to the EPA grants. As a result, the OIG recommended that EPA disallow \$1,166,051 and \$1,115,721 of labor costs for 2003 and 2004, respectively.

The State took actions to correct its labor cost allocation methodology for future years, correct the labor costs questioned in 2003 and 2004, and obtain approval for allocating non-engineering employee time to EPA grants. These actions resulted in improvements in the labor charging practices and costs being adequately supported in 2005 and 2006.

- The State revised its timekeeping system to identify actual engineering labor charges directly to individual projects. According to the State, timesheets are created semi-monthly and are certified by the employee and their supervisor. The single audit staff tested labor charging in FYs 2005 and 2006, and confirmed that staff keep timesheets and use the right accounting codes for charging to the specific grants and projects.
- The State reallocated the labor costs for 2003 and 2004 between the EPA and USDA grants. The labor costs were allocated based on the proportion of non-labor costs actually incurred by these programs. The reallocation allowed \$482,960 of EPA funds that had been used for State labor costs to be used for other VSW construction project costs.
- EPA Office of Acquisition Management (OAM) reviewed and approved the VSW project cost allocation methodology. VSW program management (non-engineering) hours are charged to the grants based on the number of hours engineer personnel charge to each project under the grant. This methodology was appropriate in accordance with OMB Circular A-87.

Accounting for Project Costs Improved

An unresolved recommendation related to accounting for project costs remained in the 2004 single audit from the prior year 2003 single audit. Disbursements from the State to the accounting firm and the Consortium that managed the projects were advances and did not represent actual costs incurred. As a result, the OIG recommended that Region 10 disallow the remaining \$32,721,149 and \$31,860,680 of costs associated with EPA funds for 2003 and 2004,

respectively, unless the State could provide actual cost data by EPA grant, by project for all EPA grants supporting the VSW program.

OMB also reported on this issue in its 2006 PART review, which noted that funds transferred to the Consortium did not meet EPA financial requirements for cash management. The PART review recommended that the State issue a contract for an independent review of the Consortium's financial processes and records.

The State took actions to reconcile its project funding for projects managed by both the State and the Consortium, eliminate the practice of advancing funds to the Consortium, and issue a contract for an independent review of the Consortium's financial processes and records:

- The State and the Consortium have reconciled all funding and no parties have cash balances. The reconciliations were based on actual cost data. Any excess advance payments over actual costs incurred for a particular project were credited to the appropriate grants.
- In conjunction with the Consortium's project cost reconciliation, the State eliminated the practice of advancing funds for project costs. All project cost payments to the Consortium are now on a reimbursable payment basis.
- In June 2007, an independent auditing firm performed the independent review of the Consortium's general accounting procedures for reconciling project expenditures. The State plans to conduct the review annually. In response to the OIG report, as part of its corrective action plan, the region stated that it would ensure the State addresses any findings of the independent review. The State had planned to follow up on the 2007 review during the review that was scheduled for November 2008. However, that review was delayed because of other federal audits of the Consortium. Therefore, the corrective action the region agreed to take will not be completed until it receives the results of that review. This is expected by October 1, 2009.

Consortium Allowed to Keep Dividend and Interest Income

Due to the State's cash draw practices and payment of advances to the Consortium, the Consortium earned dividend and interest income on federal funds due to cash and security investments. As a result, the OIG recommended that Region 10 require the Consortium to remit dividend and interest earned on EPA funds.

The Region took action to refer this matter to the Indian Health Service (IHS), based on advice of EPA's Office of General Counsel that the resolution of this issue was the responsibility of IHS. IHS determined there was nothing prohibiting the Consortium from earning interest, and now that payments are on a reimbursable basis, it is no longer a concern. Therefore, the Consortium was not required to repay any dividend and interest income earned on EPA funds.

Responsibility for Consortium Oversight Clarified

The single auditor found that the State's oversight of infrastructure funds transferred to the Consortium was insufficient to ensure compliance with Federal requirements. As a result, the OIG recommended that Region 10 require the State to enter into an agreement with the Consortium to recognize and support (1) the direct transfer of EPA grant funds from the State to the Consortium, and (2) the Consortium's responsibility to comply with all EPA grant requirements.

The State entered into two new Memorandums of Understanding to address the issues in the single audit report.

- The State, USDA, and EPA approved a Memorandum of Understanding in March 2006 agreeing that transfers will be contingent upon the State's continued programmatic and financial oversight to ensure successful project performance. It also states that a funding transfer does not relieve the State of responsibility for overall grant management and successful project completion.
- The State and IHS signed a Memorandum of Understanding in May 2006 agreeing that the State may elect to transfer grant funds from EPA to IHS. It also delineates the roles of IHS and the Consortium.

EPA Has Been Responsive to PART Recommendations

OMB rated the Alaska Village Safe Water Program as adequate in the 2006 PART review. In general, a rating of adequate describes a program that needs to set more ambitious goals, achieve better results, improve accountability, or strengthen its management practices. The PART review noted deficiencies in the VSW Program with project reporting, efficiency measures, and program management. We found that Region 10's corrective actions in response to the 2006 PART findings were either complete or progressing toward completion.

Project Reporting Improved

The PART found that Alaska's project progress reports were not accurate and did not contain all the information required, including comparing outcomes to targets, reason for delays, percentage of outputs completed, and explanation of changed scope of projects. The database for the project reporting system was not complete and did not contain all projects funded by EPA dollars.

The OMB PART recommended corrective actions to improve project reporting, including the following:

- Correct incomplete data fields and reporting deficiencies in the State's project tracking database to support analysis for cost effectiveness and efficiency.
- Finalize a Web-based project reporting system to include all projects funded by EPA dollars.

The State successfully corrected incomplete data fields and reporting deficiencies in the tracking and reporting database. The database now includes complete information for over 500 projects. According to OMB, the corrective action for reporting is complete, and the database can be used to evaluate efficiency.

Efficiency Measure Proposed

The PART found that the State did not have an efficiency measure which managers could use to improve program performance. The OMB PART recommended that the State develop an annual programmatic efficiency measure to help managers identify ways to improve overall programmatic efficiency.

The State and EPA have proposed an annual programmatic efficiency measure to OMB for its approval. The proposed measure is the percent of project federal funds expended on time within the anticipated project construction schedule. This measure will help program managers identify ways to improve overall programmatic efficiency, and it is under the influence and control of the program.

New Procedures Will Improve Program Management

The PART review found that the program had not implemented regular procedures for achieving efficiencies and cost effectiveness, or for evaluating grantees. No evidence was provided that grant managers followed established procedures or schedules for evaluating and notifying grantees that performance results were not met.

The OMB PART recommended the following corrective actions to improve program management:

- Implement stalled projects review procedures in accordance with the management control policy.
- Investigate a strategy for improving the obligation rate of program funds.
- Develop a plan to institutionalize the management framework of the program to ensure continued program effectiveness.

EPA is working to improve management. EPA established a Management Controls policy and drafted Standard Operating Procedures. The draft procedures assign funding priorities to proposed projects as follows: (1) first time service, (2) regulatory required upgrades, (3) essential infrastructure upgrades, and (4) desired upgrades. The procedures also address stalled projects. EPA and the State are conducting stalled project reviews in accordance with the Management Control policy, and the reviews should result in improved obligation rates. EPA is implementing new procedures to improve program management and institutionalize the management framework.

MATS Tracking Was Still Needed

The Region used the Management Audit Tracking System (MATS) to track the OIG report recommendations, but closed the audit in the system before all corrective actions were completed. MATS facilitates the Agency's reporting to Congress on OIG audit report follow-up in accordance with EPA Manual 2750. As a result of the early closure, the Agency did not accurately report the implementation status of the corrective action resulting from the July 2006 OIG audit reports on Alaska.

Region 10 staff plan to follow up on corrective actions from the first independent review of the Consortium through a second independent review planned for November 2008. The Region anticipates that the State's follow-up to the independent review of the Alaska Native Health Consortium will fully resolve this corrective action at that time. However, the Region closed the OIG audit in MATS in September 2007. The Region should have kept the audit open in MATS until the follow-up was completed.

Recommendation

1. We recommend that the EPA Region 10 Regional Administrator track the corrective action for follow-up on the independent review of the Alaska Native Tribal Health Consortium by re-entering it and keeping it open in MATS until follow-up is complete.

Agency Response

The Agency concurred with the findings of our report and stated that MATS has been reopened. The Agency also stated that it will continue to follow up on implementation of the State's review findings. The corrective action has been reopened in MATS. The independent review of the Alaska Native Tribal Health Consortium has been delayed, but should be complete by October 1, 2009. See Appendix A for the Agency's complete response.

OIG Evaluation

EPA's response to our recommendation is adequate and should address our report finding. We request that the Agency provide evidence to us when the next independent review is complete.

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	7	Track the corrective action for follow-up on the independent review of the Alaska Native Tribal Health Consortium by re-entering it and keeping it open in MATS until follow-up is complete.	O	Regional Administrator, Region 10	10/01/09		

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**Agency Response**

December 19, 2008

Reply to
Attn Of: OWW-137

MEMORANDUM

SUBJECT: OIG Draft Audit Report “EPA Region 10 Took Adequate Corrective Actions for Alaska Village Safe Water Program,” Project No. 2008-0276 – Region 10 Response.

FROM: Michael Gearheard
Director Office of Water & Watersheds, Region 10

TO: Janet Kasper, Director
Assistance Agreement Audits
Office of Inspector General

The OIG Draft Audit Report 2008-0276 regarding the Alaska Village Safe Water program identified one corrective action set out in the Region’s action plan of February 28, 2007 that had not been completed: following up on implementation of findings from an independent review conducted by the State of Alaska (the State) concerning reconciliation of project costs by the Alaska Native Tribal Health Consortium (ANTHC). Because of this, you also found that the tracking of the Region’s corrective actions in EPA’s Management Action Tracking System (MATS) had been closed out prematurely. You recommended that the relevant MATS entries be returned to “active” status, and that the Region continue tracking the identified corrective action until it is completed.

Region 10 Response

Region 10 concurs with the findings of your report, and will continue to follow up on the implementation of the State’s review findings. The MATS entries for the 2003 and 2004 Single Audit findings were returned to “active” status shortly after the Discussion Draft for this review was issued, and the Region 10 Audit Coordinator will continue to track the remaining corrective action until it is completed.

However, there is one correction which needs to be made with regard to completion of this action. On pages 4 and 7 of your draft report, you indicated the next independent review of ANTHC was scheduled for November 2008. Unfortunately, the accomplishment of the review within that time frame has not been possible due to other review and audit efforts which have taken precedence and over which ANTHC has had no control. The United States Department of Agriculture – Rural Development (USDA-RD) Office of Inspector General (OIG) has just completed a lengthy on-site review of ANTHC’s financial records and procedures associated with an ongoing audit. This has, in turn, caused ANTHC to fall behind schedule in accomplishing their annual A-133 (Single) Audit, as required. Further, on November 19, 2008,

the EPA OIG's Office of Forensic Audits, notified ANTHC of their intent to perform a review related to Interagency Agreements. Because of these audit activities, Region 10 is proposing that scheduled completion of the next independent review be revised to "between the 2008 and 2009 construction seasons." For tracking and reporting purposes, we propose a date of October 1, 2009, for completion of this finding.

In relation to the planned review by the EPA OIG of Interagency Agreements with ANTHC, Region 10 has requested that Robert Adachi, Director, Office of Forensic Audits postpone the review until the USDA-RD OIG audit results are published and ANTHC has had time to follow up on the recommendations. Region 10 feels that concurrent audits of ANTHC would be in violation of one of the four major purposes of the Single Audit Act: to promote the efficient and effective use of audit resources. We ask that EPA's OIG accept the proposed change in the schedule for completing the one finding still outstanding, and to consider the impact of multiple audits and reviews on this overall effort.

We appreciate your review of the Region's work in addressing and resolving the findings identified by your office from the State's 2003 and 2004 Single Audits, and are pleased that you found that we had essentially accomplished what we committed to do. We look forward to completion of the single remaining open finding.

cc: Elin Miller, Regional Administrator, Region 10
Michelle Pirzadeh, Deputy Regional Administrator, Region 10
Paula Vanhaagen, Manager, Grants and Planning Unit, OWW -137
Armina Nolan, Manager, Grants Administration Unit, OMP-145
Dennis Wagner, Project Officer, OWW – Anchorage, AOO/A
Bob Phillips, Audit Coordinator, OMP-145
Randy Holthaus, EPA/OIG, Region 6
Melinda Burks, EPA/OIG, Region 10
Madeline Mullin, EPA/OIG, Region 10

Appendix B

Distribution

Office of the Administrator
Acting Assistant Administrator, Office of Water
Acting Regional Administrator, Region 10
Office of General Counsel
Director, Grants and Interagency Agreements Management Division
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
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Public Affairs Office, Region 10
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Grants Administration Manager, Region 10
Deputy Inspector General