



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

***Hotline Report: Spending Taxpayer Dollars***

# **Hawaii Department of Health Needs to Reduce Open Grants and Unspent Funds**

Report No. 16-P-0218

June 28, 2016



## Report Contributors:

Angela Bennett  
Lela Wong

## Abbreviations

CFR	Code of Federal Regulations
DOH	Hawaii Department of Health
DOT	Hawaii Department of Transportation
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year (federal)
IUP	Intended Use Plan
OIG	Office of Inspector General
SDWA	Safe Drinking Water Act
SFY	State fiscal year

**Cover photo:** The Ewa Shaft Granular Activated Carbon Treatment Facility, on the Hawaii island of Oahu, which has received Drinking Water State Revolving Funds. (Hawaii Department of Health photo)

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# At a Glance

## Why We Did This Audit

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) received a hotline complaint regarding the Hawaii Department of Health (DOH). The complaint alleged that Hawaii DOH pools its funds from the Drinking Water State Revolving Fund (DWSRF) program with Hawaii Department of Transportation funds. The complaint also alleged that the EPA continues to fund the state's DWSRF program even though it has 10 open grants with \$30 million in unspent funds, of which \$5 million is not committed. Our objective was to determine the validity of the allegations and recommend corrective actions to address the allegations, as appropriate.

### This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Launching a new era of state, tribal, local and international partnerships.*

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Listing of [OIG reports](#).

## Hawaii Department of Health Needs to Reduce Open Grants and Unspent Funds

### What We Found

We found no evidence to support the allegation that Hawaii DOH pools its DWSRF with Hawaii Department of Transportation funds, nor did we find indications of improper shifting of funds between the DWSRF and other state programs.

**Hawaii DOH needs to spend \$12 million by September 30, 2016, to meet the agency's target for DWSRF funding utilization.**

We confirmed that Hawaii DOH had 10 open grants in August 2015, as well as a large amount of unspent funds. The 10 open grants far exceeded the national average of four, and the agency funding utilization target of two. We learned that Hawaii DOH did not use the EPA's preferred first-in-first-out method to fund projects under the 10 open grants. Rather, Hawaii DOH funded each project under a specific grant. Therefore, any project delay would limit Hawaii DOH's ability to spend funds, and grants may not be closed as expeditiously as anticipated. A limited number of customers and the funding of projects not ready to proceed may have contributed to the unspent funds issue.

Hawaii DOH has closed four grants since the complaint, and has taken steps to significantly reduce the unspent funds from \$22.3 million in August 2015 to \$15.09 million as of April 1, 2016. However, additional actions are needed to further reduce the open grants and spend the funds more efficiently and expeditiously, as required under federal regulations and grant terms and conditions, and to meet the agency's DWSRF funding utilization target.

Region 9 was aware of these matters, and has issued a Notice of Non-Compliance to Hawaii DOH. Hawaii DOH has established a corrective action plan to address the noncompliance. In addition, Region 9 has an ongoing management study to identify and address the root causes for these issues.

### Recommendation and Planned Corrective Actions

We recommend that the Regional Administrator, Region 9, reevaluate the status of fundable projects and Hawaii DOH's progress on implementing the corrective action plan items, prior to awarding the fiscal year 2016 allotment of \$8,312,000 and any future award, until Hawaii DOH meets the agency's funding utilization target. Hawaii DOH concurred with our findings and recommendation, but requested updates to reflect the status of open assignments and unspent funds. We have incorporated the changes into the report where appropriate. Since Region 9 has not yet responded to the recommendation, the recommendation remains unresolved.



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

THE INSPECTOR GENERAL

June 28, 2016

**MEMORANDUM**

**SUBJECT:** Hawaii Department of Health Needs to Reduce Open Grants and Unspent Funds  
Report No. 16-P-0218

**FROM:** Arthur A. Elkins Jr.

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

**TO:** Alexis Strauss, Acting Regional Administrator  
Region 9

This is our final report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY15-0026. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

EPA Region 9's Water Division administers and manages project grants to the states, including the DWSRF program.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide us your proposed management decision on the findings and recommendation contained in this report before you formally complete resolution with the grant recipient. Since Region 9 has not yet responded to the report's recommendation, that recommendation is considered unresolved. Your proposed management decision is due in 120 days, or on October 26, 2016. To expedite the resolution process, please email an electronic version of your proposed management decision to [trefry.john@epa.gov](mailto:trefry.john@epa.gov).

Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal, along with corresponding justification.

This report will be available at [www.epa.gov/oig](http://www.epa.gov/oig).

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## Purpose

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) received a hotline complaint regarding the Hawaii Department of Health (DOH). The complaint alleged that the Hawaii DOH pools its funds from the Drinking Water State Revolving Fund (DWSRF) program with Hawaii Department of Transportation (DOT) programs. Also, the complaint alleged that the EPA continues to fund the state's DWSRF program, even though it has 10 open grants with \$30 million in unspent funds. Our objective was to determine the validity of the allegations and recommend corrective actions to address the allegations, as appropriate.

## Background

On June 16, 2015, the OIG received an anonymous complaint concerning the Hawaii DWSRF program. The complainant alleged that it is common knowledge in Hawaii that the state's DOH and DOT pool their funds. The complainant expressed concern that the DWSRF is paying for costs unrelated to the program and perhaps to another state program. The complainant also alleged that the EPA wants to award an additional \$8 million of DWSRF to the Hawaii DOH, even though it appears that the program already has 10 open grants with \$30 million in unspent funds, of which \$5 million is uncommitted. The complainant said the \$8 million in new grants should not be awarded.

### ***DWSRF Laws and Regulations***

The 1996 Safe Drinking Water Act (SDWA) Amendments created the DWSRF program. The DWSRF is a loan program that provides low-cost financing to eligible entities for public and private water system infrastructure projects needed to achieve or maintain compliance with SDWA requirements and protect public health.

Under the DWSRF program, EPA Region 9 provides DWSRF grants to Arizona, California, Hawaii and Nevada. Each state manages its DWSRF program, and loans or other types of assistance for drinking water projects are distributed according to each state's program and priorities. Every year, Congress appropriates funds, which the EPA distributes among the states. States have the flexibility to set aside a portion of their capitalization grant to fund SDWA programs, such as the Public Water System Supervision, Source Water Protection, capacity development and wellhead protection programs.

Each fiscal year, each state is required to submit an Intended Use Plan (IUP) as part of its application for its DWSRF capitalization grant. The IUP provides information regarding the use of federal, state and additional monies generated from other program sources. The IUP also includes details on key aspects of the program, including the long- and short-term goals, the priority setting criteria, a

fundable list of projects, and the expected funding schedule for each project. The latest IUP submitted by Hawaii DOH is for the State Fiscal Year (SFY) 2016, which is part of the application of the EPA fiscal year (FY) 2015 DWSRF capitalization grant award. The IUP was dated September 2015 and accepted by the EPA in October 2015.

### **Agency Requirements**

The SDWA requires the agency to “publish guidance and promulgate regulations... to ensure that each [state] commits and expends funds allotted... as efficiently as possible.” According to the Code of Federal Regulations (CFR) in 40 CFR § 35.3550, “[states] must agree to commit and expend all funds as efficiently as possible and in an expeditious and timely manner.” The regulation further requires states to have binding commitments for all funds (capitalization grant amount and the state matches) within 1 year of receipt of the grant payment. This requirement is incorporated in terms and conditions of the grants.

On April 14, 2014, the agency issued a reduction strategy memorandum on DWSRF unliquidated obligations (or unspent funds) to address concerns about the timely expenditure of federal funds. The memorandum stated that the agency’s objective is to fully utilize DWSRF funds from FY 2013 or earlier by the end of September 2016, and completely draw down funds for future years’ grants within 2 years from the date of grant award.

### **Fund Utilization**

As of August 2015, Hawaii DOH had 10 open grants with \$22.3 million in unspent funds. As shown in Table 1, the oldest open grant was awarded in July 2006.

**Table 1: Hawaii DOH open DWSRF grants as of August 12, 2015**

<b>Grant no.</b>	<b>Project start</b>	<b>Project end</b>	<b>Award date</b>	<b>Total award</b>	<b>Funds remaining</b>
99986506-0	8/31/2006	6/29/2016	7/11/2006	\$8,285,500	\$0*
99986507-0	6/30/2007	6/29/2017	5/24/2007	8,229,300	72,647
99986508-0	2/29/2008	6/29/2017	2/12/2008	8,229,000	94,419
99986509-0	2/28/2009	6/29/2018	2/23/2009	8,146,000	519,295
99986510-1	12/31/2009	6/29/2019	11/5/2013	8,146,000	1,452,181
99986511-0	3/31/2011	6/29/2017	2/7/2011	13,573,000	4,571,059
99986512-1	9/29/2011	6/29/2018	11/5/2013	9,268,000	3,215,438
99986513-0	9/27/2012	6/29/2019	8/8/2012	9,125,000	2,152,919
99986514-0	9/29/2013	6/29/2020	9/22/2013	8,421,000	3,883,090
99986515-1	11/30/2014	6/29/2021	8/2/2015	8,787,058	6,319,121
<b>Total</b>				<b>\$90,209,858</b>	<b>\$22,280,170**</b>

Source: EPA’s grant management system quick report.

- \* Even though this grant had a \$0 balance as of August 12, 2015, the final financial status report was not received to close out the grant until October 2, 2015.
- \*\* Calculation discrepancy due to rounding.

Although the agency encourages states to use federal funds from the oldest grants first—an accounting practice known as “first-in first-out”—Hawaii DOH did not adopt the practice. Instead, Hawaii DOH tied the funding for each project or contract to a specific funding source, such as a capitalization grant. Thereby, any project delay would limit Hawaii DOH’s ability to spend funds and grants may not be closed as expeditiously as anticipated. According to an EPA contractor report issued on October 22, 2014, approximately 78 percent of the states were using the first-in first out method as of June 16, 2014. Consequently, 75 percent of the programs had four or fewer open grants.

### ***Region 9 Action to Withhold Grant Funds***

On October 24, 2014, Region 9 issued a Notice of Non-Compliance to the Hawaii DOH because Hawaii DOH had not:

- Managed DWSRF funds in a sound, efficient and prudent manner, due to lack of adequate personnel and effective tools and processes.
- Committed and expended all funds in the DWSRF as efficiently as possible and in an expeditious and timely manner, which violates the CFR and grant terms and conditions. As of June 2014, Hawaii DOH had total unspent funds of \$100 million (including \$33 million in EPA funds).

An attachment to the Notice of Non-Compliance contained 30 items that the Hawaii DOH was required to address. On January 30, 2015, Hawaii DOH submitted a corrective action plan to address the items.

## **Prior Audit Report**

During our audit, we found that the Hawaii DOH had not made adequate progress in implementing the January 30, 2015, corrective action plan. In particular, we noted that the Hawaii DOH had not:

- Provided an acceptable IUP for the state’s SFY 2016.
- Executed targeted loan commitments of \$56 million (only 87 percent executed), resulting in a shortage of \$7.4 million.
- Disbursed targeted disbursements of \$60 million (only 80 percent disbursed), leaving \$11.8 million in undisbursed funds.

In addition, based on our observations, projects on the fundable list may not be ready to proceed, and estimated start dates may not be realistic.

As a result, we issued an early warning report on September 28, 2015, *Early Warning Report: EPA Region 9 Should Withhold Award of the Fiscal Year 2015*

*Drinking Water State Revolving Fund Grant to the Hawaii Department of Health (15-P-0298)*. We recommended that the Regional Administrator, Region 9, exercise fiduciary responsibility and withhold FY 2015 funds of \$8,787,000 for the Hawaii DOH DWSRF capitalization grant until the region is satisfied with the corrective action plan implementation progress.

Based on our recommendation, Region 9 withheld \$8,098,680 of the \$8,787,000, and issued an enforcement letter to require Hawaii DOH to meet interim corrective action plan targets for loan execution and disbursement by January 29, 2016, to award the remaining \$8,098,680 allotted for the fiscal year. Hawaii DOH met the interim targets by January 6, 2016, approximately 3 weeks ahead of schedule. The EPA awarded the remaining funds allotted for the fiscal year on March 3, 2016.

## **Responsible Office**

EPA Region 9's Water Division administers and manages project grants to the states, including the DWSRF program.

## **Scope and Methodology**

We conducted this audit from August 17, 2015, to April 28, 2016, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We performed the following steps to address the pooling of funds concern:

- Interviewed EPA Region 9 and Hawaii DOH staff and management to discuss the allegation and the potential for the pooling of funds to occur.
- Performed a walk-through of Hawaii DOH's accounting systems to obtain an understanding of how funding is encumbered, and DWSRF expenditure and revenue transactions are initiated, processed and recorded in the accounting system, to identify potential weaknesses in the system that may have allowed for the shifting of funds between the DWSRF and the DOT programs.
- Reviewed judgmentally selected journal voucher transactions for evidence of improper funding transfers between the EPA and DOT or other state programs.

- Interviewed the EPA’s contractor for the management study report issued on October 22, 2014, to determine whether they are aware of any potential weaknesses in the system that may have allowed for the shifting of funds between programs.
- Reviewed Single Audit reports for FYs 2013 and 2014 to identify any instances of shifting of funds between programs.
- Identified DOT’s unspent fund amounts to determine whether DOT programs have a need for additional funds.

We performed the following to address the concerns on the large number of open grants and unspent funds:

- Identified Hawaii DOH’s DWSRF open grants from the EPA’s grant management database.
- Obtained information on the project status of the open grants from Hawaii DOH.
- Interviewed EPA Region 9 and Hawaii DOH staff and management to discuss the hotline allegations, Notice of Non-Compliance, and Hawaii DOH’s progress in implementing the corrective action plan to address the Notice of Non-Compliance.
- Interviewed federal project managers for DOT and U.S. Housing and Urban Development grants to obtain an understanding of the extent of the unspent funds issue for their programs, and identify possible causes and solutions for the issue.
- Reviewed the SDWA Amendments, federal regulations, and EPA policy and guidance to determine the applicable requirements pertaining to the award of DWSRF funds.
- Reviewed Hawaii DOH’s DWSRF priority list of projects from the SFY 2016 IUP to determine the need for continued funding under the program.
- Reviewed Hawaii DOH’s DWSRF fundable list of projects for SFY 2014 through 2016 to determine whether the projects proposed for funding were ready to proceed within the fiscal year.
- Interviewed Hawaii DOH’s loan recipients—the four counties in the state of Hawaii—regarding their project proposal and approval process, to obtain an understanding of their challenges and obstacles.

## Results of Audit

We found no evidence to support that DWSRF funds are pooled with DOT funds, nor did we find indications of improper shifting of funds between the Hawaii DOH and other state programs. While all funds are deposited into the state treasury, Hawaii accounts for the funds by grant in its accounting system.

We did confirm that Hawaii DOH had 10 open grants at the beginning of our fieldwork in August 2015. The 10 grants far exceeded the national average of four, and the agency target of two. Hawaii DOH has since submitted a final financial status report and closed the oldest grant. It has also taken steps to significantly reduce the unspent funds from \$22.3 million in August 2015 to \$15.09 million as of April 1, 2016. However, additional actions are needed to further reduce the open grants and spend the funds more efficiently and expeditiously, as required under federal regulations in 40 CFR § 35.3550 and the grant terms and conditions, and to meet the agency's DWSRF funding utilization target.

### ***Pooling of DWSRF With DOT Funds***

We found no evidence to support the allegation regarding pooling of funds. We based our conclusion on interviews with EPA employees, a walk-through of Hawaii's accounting processes, review of selected expenditure and revenue adjustment transactions, a discussion with the EPA's consultant on a management study of Hawaii's DWSRF program, and a discussion with the DOT program manager regarding federal grant funds.

#### Interviews With EPA Employees

Interviews with the Region 9 employees responsible for the Hawaii DOH grants did not disclose any indication of funding shifts between DWSRF and DOT or other departments in the state. We learned that Region 9 had expressed concerns about Hawaii DOH shifting funds between the DWSRF and the EPA's Ground Water 106 (GW106) grant. Hawaii DOH stated that, based on previous correspondence with the EPA, Hawaii DOH believed it was allowed to use the EPA's Public Water System Supervision and GW106 grant funds for DWSRF set-aside activities. This issue was resolved with the conclusion that no unapproved transfers had occurred. As of October 1, 2014, Hawaii DOH had discontinued this practice.

#### Walk-Through of Accounting Processes

A walk-through of the accounting processes indicated that Hawaii has implemented controls to ensure proper accounting of funds, and the risk of pooling DWSRF with DOT funds is low. Our conclusion is based on the following:

- Each department has its own funding accounts. According to the Hawaii Department of Budget & Finance, DOT's funding is under a special account and, therefore, the transferring of funds between DOT and DOH cannot occur.
- Each project is assigned its program charge code at the beginning, when the funding source is established. The charge codes are noted in the source documents supporting the transactions. The charge codes are also verified by the Hawaii DOH accounting staff at the Environmental Resources Office and the Administrative Services Office to ensure accounting entries are properly supported. Accounting entries are also reconciled at least monthly.

The charge codes cannot be changed without an approved journal voucher. Journal vouchers are generated by the program offices with justifications and supporting documentation, and approved by the chief of the Environmental Resources Office and Administrative Services Office. Once approved, the journal vouchers are then input into the accounting system by the Department of Accounting and General Services, which is separate from Hawaii DOH. The accounting system input is again verified by the Administrative Services Office for accuracy. Both the Administrative Services Office and Department of Accounting and General Services are control points external to the DWSRF program.

- DWSRF and the DOT programs have separate staff and are at different physical locations. It would be difficult for DOH and DOT staff and management to coordinate the shifting of funds.

### Review of Expenditure and Revenue Adjustment Transactions

We judgmentally selected four expenditure journal voucher transactions and three revenue journal voucher transactions for review. The transactions covered the period from July 1, 2013, to August 18, 2015. Our review did not identify any evidence of pooling of funds between DWSRF and DOT or other state programs.

### Interview on Management Study

We also followed up with the firm contracted by the EPA to conduct a management study of Hawaii's Clean Water State Revolving Fund and DWSRF programs. Based on its understanding of Hawaii's accounting system, the firm agreed it would be difficult to shift funds between programs without proper authorization.

## Discussion With DOT Program Manager

Based on discussions with the EPA project officer and DOT program manager, we learned that DOT's federal grants also had a large amount of unspent funds. As of January 12, 2015, DOT had the highest unliquidated obligation (or unspent funds) balance in the state—approximately \$819 million. Therefore, we did not identify any motivation to shift funds to a department with such a large fund balance.

### ***Open Grants and Unspent Funds***

We confirmed the allegation that DWSRF has 10 open grants with a large amount of unspent funds. As of August 2015, the Hawaii DOH had 10 open grants with \$22.3 million in unspent funds (see Table 1 in the “Background” section of this report). Details of our review follow.

#### Large Number of Open Grants

We identified the 10 open grants from the EPA's grant management system and discussed the reasons for delay with Hawaii DOH. Based on our understanding, delays in grant close-out are partly due to long-term ongoing projects or contracts with funding tied to a specific grants. Of the nine grants that remained outstanding as of January 2016, eight were from FY 2013 and earlier. As of April 1, 2016, Hawaii DOH has submitted final financial status reports to close four of the eight older grants.

Hawaii DOH has taken some steps to reduce the number of open grants. Starting with new projects awarded in SFY 2015, loan agreements are no longer tied to a grant. The loan documents only reference the DWSRF appropriation code, not the project code (or grant reference). This would allow Hawaii DOH to change the funding source without having to go through the lengthy process of modifying the loan agreement. Hawaii DOH can modify the purchase order directly to change the funding source, so that older grant funds can be used first. However, based on the current system and project status, it is unlikely for Hawaii DOH to meet the agency target of fully utilizing funds from FY 2013 or earlier by the end of September 2016.

Item 27 of the Hawaii DOH's corrective action plan, due by June 30, 2017, requires Hawaii DOH to “[a]chieve a balance of unliquidated federal funds, including set-asides, of no more than the sum of the federal capitalization grants for federal fiscal years 2015 and 2016.” The FY 2015 grant amount was \$8,787,000 and the FY 2016 allotment amount is \$8,312,000. As a result, the total balance of unliquidated federal funds shall be no more than \$17,099,000.

## Large Amount of Unspent Funds

In our early warning report (Report No. [15-P-0298](#)), we noted that projects on the fundable list may not be ready to proceed, and estimated construction start dates may not be realistic. We noted some projects carried over onto the fundable list for multiple years. This is one of the causes for the large amount of unspent funds; other causes were identified in the management study conducted by the EPA contractor. This occurred because Hawaii DOH relied solely on the counties to provide the estimated construction start dates. Hawaii DOH did not fully consider the challenges and delays the counties might encounter. Historical preservation, environmental review and land ownership are common challenges and causes for delay.

Maui County also mentioned another challenge it faces—all projects need to be approved by its council, which only meets once a year for project and budget approvals. With the time needed for project approval and funding, Maui often needs an 18-month lead time. Project approval may be uncertain at the time it is proposed to the Hawaii DOH. Once a project is delayed, funding may not be spent as expeditiously as anticipated.

There is also a general concern about the lack of customers. Currently, the four counties in Hawaii are DOH's only customers for the DWSRF. Counties need to evaluate their options for funding projects—e.g., using their own money versus DWSRF loans. We were advised by Kauai that the county has sufficient bond funds to finance projects for the next 1 to 2 fiscal years; therefore, it will not be applying for DWSRF loans in SFY 2016 or possibly SFY 2017. With only four potential customers, losing one would have a major impact on Hawaii DOH's ability to issue loans and spend the funds.

## Conclusion

Hawaii DOH's open grants far exceed the national average and the agency target. The causes may be the lack of customers and the fact that projects on Hawaii DOH's fundable project lists used to obtain the grant awards may not be ready to proceed within the expected timeframe. Since each project is tied to a specific grant, delays in project start would result in Hawaii DOH not being able to spend the funds and close the grants as expeditiously as anticipated. Although Hawaii DOH has taken steps to significantly reduce the unspent funds, it still needs to continue to follow its corrective action plan to meet the agency's long-term objective of completely drawing down funds for future years' grants within 2 years from the date of grant award.

Our review of the SFY 2016 priority list of projects showed Hawaii DOH has the need for the DWSRF in SFY 2017. However, due to the lack of realistic estimates for construction start dates, Region 9 should reevaluate the status of the fundable

project lists. In addition, Hawaii DOH's progress on the implementation of the corrective action plan items should be reevaluated prior to any future award.

## **Recommendation**

We recommend that the Regional Administrator, Region 9:

1. Reevaluate the status of the fundable projects and Hawaii DOH's progress on implementing the corrective action plan items prior to awarding the FY 2016 allotment of \$8,312,000 and any future award. The reevaluation should continue until Hawaii DOH meets the agency's funding utilization target.

## **Auditee Response and OIG Evaluation**

Hawaii DOH concurred with our findings and recommendation, but requested updates to the final report to reflect the status of open assignments and unspent funds as of the draft report date of April 28, 2016. Hawaii DOH's full response is in Appendix A of this report. We have incorporated the changes into the report where appropriate. Since Region 9 has not yet responded to the report's recommendation, that recommendation is considered unresolved.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	10	Reevaluate the status of the fundable projects and Hawaii DOH's progress on implementing the corrective action plan items prior to awarding the FY 2016 allotment of \$8,312,000 and any future award. The reevaluation should continue until Hawaii DOH meets the agency's funding utilization target.	U	Regional Administrator, Region 9		\$8,312	

<sup>1</sup> 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.

# Auditee Response to Draft Report

DAVID Y. IGE  
GOVERNOR OF HAWAII



VIRGINIA PRESSLER, M.D.  
DIRECTOR OF HEALTH

STATE OF HAWAII  
DEPARTMENT OF HEALTH  
P.O. BOX 3378  
HONOLULU, HI 96801-3378

In reply, please refer to:  
File: EMD-SOWB  
Trefry01.docx

May 31, 2016

Mr. John M. Trefry  
Director, Forensic Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
1200 Pennsylvania Avenue, NW (2410T)  
Washington, D.C. 20460  
[via [Trefry.John@epa.gov](mailto:Trefry.John@epa.gov) only]

Attention: Ms. Angela Bennett  
[via [Bennett.Angela@epa.gov](mailto:Bennett.Angela@epa.gov) only]

Dear Mr. Trefry:

SUBJECT: Draft Report, *Hawaii Department of Health Needs to Reduce Open Grants and Unspent Funds*  
Project No. OA-FY16-0102  
Dated April 28, 2016

The Department of Health (DOH) concurs with the findings and recommendation of the Office of Inspector General (OIG). The report is factually accurate, however updates through the publication date of April 28, 2016, have not been identified. The DOH comments and updates to the findings are listed below:

1. At a Glance (pdf page 3), Paragraph 3, First sentence: Revise to "Hawaii DOH has closed four (4) grants since the complaint and has taken steps to significantly reduce the unspent funds from \$22.3 million in August 2015 to \$15.09 million as of April 1, 2016." If allowed to indicate amount as of May 1, 2016, please use \$14.77 million instead. These current values are from the enclosed Monthly DWSRF ULO Reports received from EPA Headquarters on pages 3 and 4.
2. Report Page 3 (pdf page 8), Paragraph 1, Last 2 sentences: Insert space between "2014." and "Consequently."
3. Report Page 4 (pdf page 9), Paragraph 1, Last sentence: Revise to "Hawaii DOH met the interim targets early by January 6, 2016, and was approved to apply for the remaining FY 2015 funds. The funds were awarded on March 3, 2016." The first page of the US EPA Assistance Amendment for FS 99986516-01 is enclosed on page 5.

4. Report Page 8 (pdf page 13), Paragraph 1, Last sentence: Revise to “Hawaii DOH submitted final financial status reports to close four (4) grants (FS99986506, FS99986507, FS99986508, and FS99986509 for FFY 2005, FFY 2006, FFY 2007, and FFY 2008 as of April 1, 2016).” EPA Compass reports for the four (4) closed grants are enclosed on pages 6 to 9.
5. Report Page 8 (pdf page 13), Paragraph 2, Add after last sentence: The Hawaii DOH Corrective Action Plan Item No. 27, due by June 30, 2017, requires Hawaii DOH to “[a]chieve a balance of unliquidated federal funds, including set-asides, of no more than the sum of the federal capitalization grants for federal fiscal years 2015 and 2016.” The FFY 2015 grant amount is \$8,787,000.00 from the enclosed US EPA Assistance Amendment for FS 99986516-01 on page 5. The FFY 2016 grant amount of \$8,312,000.00 is from the FY 2016 DWSRF Allotments received from EPA Headquarters on page 10. The total balance of unliquidated federal funds shall be no more than \$17,099,000.00.

If you have any questions, please contact Ms. Joanna L. Seto, P.E., Safe Drinking Water Branch Chief, at (808) 586-4258 or via email at [joanna.seto@doh.hawaii.gov](mailto:joanna.seto@doh.hawaii.gov).

Sincerely,



Virginia Pressler, M.D.  
Director of Health

- Enclosures:
1. DWSRF ULOs by State, As of 04/01/2016
  2. DWSRF ULOs by State, As of 05/01/2016
  3. US EPA Assistance Amendment for FS 99986516-01, awarded 03/03/2016
  4. EPA Compass Document: GO FS99986506, closed date 06/17/2015
  5. EPA Compass Document: GO FS99986507, closed date 05/09/2014
  6. EPA Compass Document: GO FS99986508, closed date 02/19/2016
  7. EPA Compass Document: GO FS99986509, closed date 04/01/2016
  8. EPA FY 2016 DWSRF Final Allotments, received on 2/9/2016
- c: Ms. Lela Wong, OIG [via [Wong.Lela@epa.gov](mailto:Wong.Lela@epa.gov) only]  
Mr. Mike Montgomery, EPA Region 9 Tribal and State Assistance Branch Immediate Office (WTR-3) [via [Montgomery.Mike@epa.gov](mailto:Montgomery.Mike@epa.gov) only]  
Mr. Doug Eberhardt, EPA Region 9 Infrastructure Section (WTR-3-3) [via [Eberhardt.Doug@epa.gov](mailto:Eberhardt.Doug@epa.gov) only]  
Ms. Susan Polanco de Couet, EPA Region 9 Infrastructure Section (WTR-3-3) [via [Polanco.Susan@epa.gov](mailto:Polanco.Susan@epa.gov) only]  
Mr. Keith Yamamoto, Deputy Director of Health [via email only]  
Dr. Keith E. Kawaoka, Deputy Director for Environmental Health [via email only]  
Mr. Stuart Yamada, Environmental Management Division [via email only]  
Ms. Sina Pruder, Wastewater Branch [via email only]

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