



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Spending Taxpayer Dollars

Unused Earmark Funds for Water Projects Totaling \$6.2 Million Could Be Put to Better Use

Report No. 15-P-0299

September 30, 2015



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Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal year
Management plan	<i>Management Plan for the Timely Award and Completion of Special Appropriations Act Project Grants</i>
OIG	Office of Inspector General
OWM	Office of Wastewater Management
RCL	Regional Congressional Liaison
SAAP	Special Appropriations Act Project

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At a Glance

Why We Did This Review

We performed this audit to evaluate whether the U.S. Environmental Protection Agency (EPA) has implemented and complied with the *Management Plan for the Timely Award and Completion of Special Appropriations Act Project Grants* (policy), and determine whether the corrective actions have been effective in reducing the unobligated and unliquidated funds associated with Special Appropriations Act Project (SAAP) grants.

SAAP grants are funds directed by Congress to fund projects that are specifically identified in the EPA appropriation. Congress directs SAAP funds to specified recipients for defined water and wastewater facilities projects. Congress has not appropriated any funds for SAAP grants since fiscal year 2010.

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

- *Protecting water: A precious, limited resource.*
- *Embracing EPA as a high-performing organization.*

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The full report is at: www.epa.gov/oig/reports/2015/20150930-15-P-0299.pdf

Unused Earmark Funds for Water Projects Totaling \$6.2 Million Could Be Put to Better Use

What We Found

EPA actions have successfully reduced both the number and dollar amount of grants with unobligated funds (funds available, grant not awarded) and unliquidated grants (grant awarded, funds not spent) in the SAAP grant program. However, we identified \$6.2 million of funds that could be put to better use:

SAAP grant funds should either be used for water and wastewater facilities as intended or, with congressional rescission, be returned to the U.S. Treasury.

- Grants totaling about \$2.8 million awarded and obligated more than 5 years ago have had no financial activity, such as payments to recipients.
- Appropriated funds for SAAP grants totaling about \$3.4 million that Congress directed to specified recipients for defined projects remain unobligated. All of the unobligated funds exceeded the programmatic goal to award grants within 3 years of appropriation.

Although SAAP grant funds are available indefinitely, the EPA has a responsibility to ensure timely use of federal funds. EPA staff gave several reasons for why funds remained unused, including recipients not being interested in the funds or issues with environmental reviews and applications.

Recommendations and Planned Corrective Actions

We recommend that the Assistant Administrator for Water develop and communicate guidance to the EPA regions aimed to further reduce SAAP grant unliquidated obligations where an awarded grant has no financial activity, and establish a method to identify grants with no financial activity. We also recommend that the office take action to help resolve the cause for delay or identify the grant as a no-progress grant. Additionally, the office should develop and implement a plan to expedite the reduction in unobligated funds. In its response, Office of Water agreed with all of the recommendations and provided corrective action plans to address all of the recommendations, but did not provide milestone dates. Therefore we consider the recommendations unresolved.

Noteworthy Achievements

Since the EPA issued the policy in October 2011, unobligated funds and unliquidated grants have significantly declined. Since September 30, 2010, the number of grants with unliquidated obligations has been reduced by approximately 76 percent based on our February 2015 grant reviews, and the number of unobligated grants has declined by approximately 91 percent.



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

THE INSPECTOR GENERAL

September 30, 2015

MEMORANDUM

SUBJECT: Unused Earmark Funds for Water Projects Totaling \$6.2 Million
Could Be Put to Better Use
Report No. 15-P-0299

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: Ken Kopocis, Deputy Assistant Administrator
Office of Water

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 findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

The office responsible for the issues in this report is the EPA Office of Water's Office of Wastewater Management.

Action Required

In responding to the draft report, the agency provided a corrective action plan for addressing the recommendations but did not provide milestone dates. In accordance with EPA Manual 2750, you are required to provide a written response providing milestone dates for corrective actions within 60 calendar days.

This report will be available at <http://www.epa.gov/oig>.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency (EPA) issued the *Management Plan for the Timely Award and Completion of Special Appropriations Act Project Grants* (management plan, or policy), effective October 1, 2011, to address the challenges faced in managing congressionally mandated water infrastructure grants. Our objectives were to evaluate whether the EPA has implemented and complied with the policy, and whether corrective actions have been effective in reducing unobligated and unliquidated funds associated with Special Appropriations Act Project (SAAP) grants.¹

Background

A congressional earmark is a part of an appropriation designated by Congress to be spent on a particular project. Congress appropriated SAAP grant funds in the form of earmarks for water infrastructure projects—drinking water and wastewater—to benefit specific communities. However, since 2010, EPA appropriations have not included any SAAP grant funds.

The management plan is intended as a tool to facilitate timely award and successful completion of SAAP grants while operating within the bounds of the law and applicable EPA regulations and policy. The plan establishes goals for timely grant award and project completion, describes management strategies, and institutes processes for identifying and reporting on unobligated funds and projects not making reasonable or sufficient progress.

According to the management plan, the programmatic goal is to award grants within 3 years of appropriation and to successfully complete and close out 75 percent of SAAP grants within 5 years of award. The management plan went into effect October 1, 2011, with the Office of Wastewater Management (OWM) within the EPA Office of Water initially planning to analyze and report on the implementation in October 2014. When OWM received notification of the EPA Office of Inspector General's (OIG's) intended SAAP grant audit, a decision was made to delay the evaluation to fiscal year (FY) 2016.

The EPA developed the SAAP database to collect, store and report on SAAP grant projects and financial information for congressionally mandated water and

¹ Unobligated means the Congress has appropriated funds for a specific project but the grant has not been awarded. The agency refers to these funds as unawarded; however, throughout this report, we will be using the term unobligated. The unspent portion of an awarded grant is an unliquidated obligation or unliquidated grant.

wastewater infrastructure projects. The EPA uses the information from the SAAP database to reconcile earmark activity with other financial data and prepare the EPA’s annual report. The management plan requires EPA regional staff to enter information into the SAAP database related to anticipated and actual grant awards, payments, and other grant-specific data semiannually.

Responsible Offices

The EPA regional project officers work with the congressionally designated entities—such as states, cities and towns—to help them develop and submit SAAP grant applications. The Office of Water’s OWM is responsible for providing monitoring, oversight and reporting of all water infrastructure grants funded by congressional earmarks. OWM works with regions to manage SAAP grants and is responsible for implementing audit recommendations.

Noteworthy Achievements

Since the EPA issued its management plan in October 2011, unobligated funds and unliquidated obligations have significantly declined in both numbers and dollar amounts, as shown in Table 1.

Table 1: Status of SAAP grant balances from FY 2010 to February 2015

	2010 Annual Report	2011–2012 Annual Report	As of February 2015
Unobligated Funds:			
Number of potential grants	866	135	76
Amount	\$375 million	Not available	\$32.2 million
Obligated Grants:			
Number of grants	1,373	726	333
Unliquidated obligations	\$527.6 million	\$299.5 million	\$104.6 million

Source: OIG analysis of EPA data.

Congressional action has contributed to the decrease in SAAP grants. Congress has not appropriated any new SAAP funds since 2010. Further, in FY 2011, Congress rescinded \$140 million from 394 SAAP earmarks.

Scope and Methodology

We conducted this audit from October 2014 to August 2015 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether the EPA has implemented and complied with the management plan and corrective actions have been effective in reducing SAAP program's unobligated and unliquidated funds, we reviewed the relevant laws regulations and policies, as well as the operating and implementation guidance in the EPA's management plan. In addition, we conducted interviews with headquarters and regional officials to understand the management of unobligated funds and unliquidated grants. We interviewed a budget analyst for information regarding a SAAP grant reconciliation process between OWM and the Office of the Chief Financial Officer's Office of Budget.

We identified 12 grants with 100 percent of the obligated award unliquidated and sampled six of these located in EPA Regions 4 and 6. We identified 76 SAAP appropriations with unobligated funds and sampled 41 located in Regions 4 and 6. Questionnaires were sent to Regions 4 and 6 for the sampled grants, including inquiries on the roles and responsibilities of OWM and the regions, the status of recipient applications for grants, communication between the recipients and regions, and whether the grants were identified as no-progress. Our review focused on Regions 4 and 6 because those regions had the largest amount of grant unliquidated obligations and the greatest number of unobligated funds.

Prior Audit Coverage

The EPA OIG Report No. [10-P-0081](#), *EPA Needs Procedures to Address Delayed Earmark Projects*, issued March 22, 2010, reported whether the EPA awarded funds, and determine whether grantees used the funds in a timely manner. The report found that some SAAP funds were still unobligated 5 years after Congress appropriated them and some grants were not completely spent. The report stated that the EPA needed a policy specifying time limits and procedures for addressing grants that remained unobligated and address steps to be taken when projects were delayed. The agency agreed with all three recommendations in the report, resulting in the creation of the management plan.

Chapter 2

SAAP Grant Obligations Unliquidated for More Than 5 Years

Millions in SAAP grant funds have been obligated but no payments made to recipients for at least 5 years. Although SAAP grant funds are appropriated as no-year money—meaning the funding does not expire and can be used indefinitely—the management plan says the EPA has a responsibility to ensure timely use of federal funds. Further, the plan states OWM is responsible for monitoring and assessing progress on all grants still open 5 years after being obligated. According to EPA staff, payments to grantees may have been delayed for a variety of reasons, including the recipient’s inability to obtain matching funds, land acquisition difficulties, weather-related disasters, environmental reviews, and congressional technical correction problems. We determined that about \$2.8 million could be put to a better use if grants that had no financial activity for more than 5 years were deobligated.

SAAP Grants Awarded Need to Make Progress

Although SAAP grant funds are appropriated as no-year money, the agency’s management plan notes the EPA has a responsibility to ensure timely use of federal funds. Depending on the specifics of the project, and where feasible, the programmatic goal is to successfully complete and close out 75 percent of SAAP grants within 5 years of award. The management plan creates standards for identifying no-progress grants as an obligated grant that is not making reasonable or sufficient progress. No-progress grants include grants where the project period has expired, or grants that are behind schedule and should be terminated due to lack of reasonable or sufficient progress.

Identifying no-progress grants is an intermediary step for reporting; only Congress can rescind or reassign earmark funds for any purpose other than that which it is designated in the Appropriations Act. However, EPA regions have the option to return funds associated with no-progress grants to EPA headquarters so that the Office of the Chief Financial Officer and the Office of Congressional and Intergovernmental Relations may follow Executive Branch procedures to request rescissions of earmarked funds.

According to the management plan, OWM is responsible for:

- Monitoring and assessing progress on all grants still open 5 years after award.
- Providing programmatic support and guidance.
- Analyzing and reporting on the implementation of the management plan.

In addition, the regions are responsible for:

- Identifying the intended earmark designee and notifying the entity of available earmark funds.
- Tracking project progress and following monitoring and reporting procedures.
- Identifying no-progress grants.

Obligated SAAP Grants With No Financial Activity Noted

As of March 16, 2015, the EPA had a total of 12 grants totaling \$6,688,975 that had been obligated to grantees more than 5 years ago, with no financial activity, such as payments issued to the recipients. Table 2 shows the 12 grants and the unliquidated obligations.

Table 2: Grants obligated more than 5 years ago without any financial activity

Region	Grantee	Award date	Unliquidated obligations
2	Virgin Island DPW	2006	\$240,600
2	Village of Hewlett Harbor	2006	242,500
2	Town of North Hempstead	2007	955,600
2	City of Rye	2009	191,000
4	Mississippi Band of Choctaw Indians, Neshoba County	2006	192,400
4	Lake Seminole, Pinellas County	2006	780,600
4	Paulding County	2004/2007/2009	1,840,900
6	St. John the Baptist Parish	2003	867,300
6	City of Leonard	2006	337,500
6	Dona Ana Mutual Domestic Water Consumers	2006	120,500
8	Jordan Valley Water Conservancy District	2003	679,000
9	County of Hawaii	2006	241,075
	Total		\$6,688,975

Source: OIG analysis of EPA data as of March 16, 2015.

During the audit, the OIG asked OWM staff if they were taking any action to address the remaining grants that had no financial activity. OWM staff said they are in the process of conducting the annual review of year-end data for FY 2014. OWM staff said they intend to follow up with the regions when they finish analyzing all of their grant reviews.

Regions 4 and 6 SAAP Grants With No Financial Activity

We reviewed the six grants from Regions 4 and 6 (as shown on Table 2) to determine whether the grants could be identified as no-progress grants. The total value of the six SAAP grants sampled was \$4.1 million.

The regions are considering identifying two of the six grants—with a total value of \$1,961,400—as no-progress grants. In March 2015, Region 6 identified one grant—\$120,500 for Dona Ana Mutual Domestic Water Consumers Association—that the region recently asked the recipient to show progress on the project or relinquish the funds. Also, Region 4 indicated one grant—\$1,840,900 for Paulding County—was having trouble progressing and the region is considering deobligating the grant, which was appropriated in three different years (2004, 2007 and 2009).

The other four grants have been delayed for a variety of reasons, including delays in land purchases, congressional technical corrections, environmental reviews, hurricane disasters, and matching funds issues.² Regions 4 and 6 indicated that these four grants are now progressing.

In addition to the 12 grants listed in Table 2, three grants were identified that could result in funds being returned to EPA headquarters:

- Region 6 identified two grants issued to Brazos River Authority as no-progress and is planning to deobligate \$578,300.
- Region 4 identified a grant issued to the City of Owenton in which the city only used a portion of the grant because it entered into a privatization agreement with another party for the remainder of the project. Region 4 has decided to close the grant, valued at \$242,500, and determine use of remaining funds once the project is in a closed status.

Monitoring of SAAP Grant Unliquidated Obligations Limited

OWM has provided some oversight and guidance to the regions on SAAP grant activity issues and database improvements, but only limited monitoring of unliquidated obligations. OWM analyzes and reconciles the SAAP database, which is the data used by OWM to monitor and review SAAP grant unliquidated obligation balances. However, the regions are only required to update the SAAP database semiannually.

Each region decides when a grant is not making reasonable or sufficient progress. Region 4 and 6 staff indicated they want to give the recipient every opportunity possible to use the funds. Therefore, if a recipient has indicated it is interested in the grant, Regions 4 and 6 hesitate to identify the grant as a no-progress grant. There is no time limit on how long a recipient has, as long as the region decides the recipient is making progress. The grant period can be extended. Based on our review, the regions consider the grant as making progress if a recipient is, for example, communicating with the region, identifying a project, or developing a plan, even if there has been no financial activity. Therefore, the Regions 4 and 6

² The management plan states, “As directed by Congress, grantees must contribute at least forty-five percent of the project cost, either through local funds or in-kind services.”

standard for when a grant is making reasonable or sufficient progress has allowed grants to remain unliquidated.

Additionally, the regions are reluctant to identify a grant as a no-progress grant unless the recipient agrees to relinquish the funds in writing. Regions 4 and 6 explained efforts were made to reduce unliquidated obligation balances, but with staffing changes and other factors have limited the time spent on addressing unliquidated obligation balance issues.

As a result, we determined that \$2,782,200 of taxpayer dollars could be put to a better use if grants that had no financial activity for years are deobligated and—with congressional rescission—returned to the U.S. Treasury. Details on our calculations are in Appendix A.

Recommendations

We recommend that the Assistant Administrator for Water:

1. Develop and communicate guidance to EPA regions aimed to further reduce SAAP grant unliquidated obligations by clarifying:
 - The time period that is reasonable for a grant to have no financial activity before taking steps to identify the grant as a no-progress grant.
 - The guidelines that determine a grant is making reasonable or sufficient progress.
2. Establish a method to identify at least semiannually grants with no financial activity for an extended period of time and take action with the regions to identify and help resolve the cause for delay or identify the grant as a no-progress grant.

Agency Comments and OIG Evaluation

The agency agreed with the recommendations. In response to Recommendation 1, the EPA stated that it will clarify and supplement current criteria and consider an absolute criteria such as a specified time period. The EPA will strengthen guidance by:

- Requiring greater recipient justification before the EPA extends the time available to use the awarded funding.
- Identifying awarded grants that have not drawn funding and the specific circumstances that are delaying either award of contracts or delaying requests for grant payment.
- Encouraging greater use of the “no-progress” designation.

In response to Recommendation 2, the EPA will take action to address financially inactive grants of 180 days. The EPA will take corrective action by:

- Determining the latest status of each grant and the funded project.
- Verifying why there has been no financial activity.
- Making a fresh assessment if these grants should be identified as “no-progress.”
- Determining what actions if any the EPA could take to help the recipient resolve issues that are delaying project progress and liquidation of the grant.
- Determining whether the grant should be wholly or partially terminated for material noncompliance with the terms and conditions of the award.
- Inquiring on the status of any grants with standing issues on the bi-monthly calls to the regions.

The OIG believes the agency’s actions are acceptable, but dates for implementation are required. Therefore we consider the recommendations unresolved.

Chapter 3

EPA Needs to Be More Proactive With Unobligated Funds

As of February 2015, appropriations for 76 SAAP grants, worth \$32.2 million, remained unobligated and all exceeded the programmatic goal to award the grants within 3 years of appropriation. Of those 76 potential grants, Regions 4 and 6 had 41, totaling \$14 million. Per the management plan, regions classify unobligated funds as no-progress when no grant application—or an unacceptable application—was received by the region and an unreasonable amount of time passed. When classified as no-progress, a process can be started that may ultimately return the funds to the U.S. Treasury. Regions 4 and 6 staff stated they focused more time and resources on obligated grants rather than unobligated funds. Staff were also hesitant to send no-progress letters to recipients of congressionally appropriated funds and waited for recipients to say funds were not needed. As a result, about \$3.4 million of unobligated funds from Regions 4 and 6 could have been identified as no-progress and funds could be put to better use.

Programmatic Goal Is to Award Grants Within 3 Years of Appropriation

According to the management plan, the programmatic goal is to award SAAP grants within 3 years of issuance of the relevant annual SAAP guidance. SAAP grants are administered in accordance with the annual guidance from the appropriation year. In addition, the management plan classifies unobligated funds as “no-progress” if:

- The recipient has specifically stated it does not want the grant.
- The EPA is unable to award a grant that is consistent with the project authorized in the appropriations language.
- No application—or an unacceptable application—was received by the EPA, and the applicant had not provided any indication that an initial or revised application is forthcoming. An unacceptable application is received when, in the region’s best professional judgment, an unreasonable amount of time has passed or a complete and acceptable application on which to base a grant award is unlikely to be developed.

The EPA identifies no-progress unobligated funds for reporting purposes and can work with Congress to have the funds rescinded. The management plan states:

[i]f the grant applicant has expressed its intention to forgo the available funds, the Region should request written confirmation from the grant applicant.... OWM will notify the Office of Congressional and Intergovernmental Affairs and request that the Regional Congressional Liaison (RCL) notify the Congressional

sponsor that the named recipient does not want the funds and that the grant has been identified as no-progress.

The management plan also states that OWM is to monitor and assess progress on all grants that remain unobligated after 3 years.

Unobligated Funds Remain in Regions 4 and 6

Within the EPA’s SAAP program, as of February 13, 2015, funds appropriated for 76 grants, worth a total of \$32.2 million, remained unobligated. The 76 potential grants were appropriated as earmarks in FY 2010 or earlier, so all exceeded the programmatic goal to award the grants within 3 years of appropriation.

Of the appropriations for 76 SAAP projects that are unobligated, Region 4 had 22 and Region 6 had 19, the highest totals of any region. The total amount appropriated but unobligated for Regions 4 and 6’s 41 potential grants was \$14 million. Based on responses from questionnaires to Regions 4 and 6 and notes included in the SAAP database report of unobligated funds, funds for 13 of 41 projects could have been identified as no-progress. Details on the reasons the grants remained unobligated are in Table 3.

Table 3: Reasons Region 4 and 6 grants remained unobligated

Reason grants remained unobligated	Total unobligated funds		Projects identified by regions as no-progress	
	No.	Amount	No.	Amount
No action or interest from recipient	10	\$2,207,800	10	\$2,207,800
National Environmental Policy Act review issues	8	3,395,000	1	291,000
Application issues	5	2,472,100	0	N/A
No project identified by recipient	4	1,115,000	1	485,000
Scope issues	2	911,000	1	426,000
Other	12	4,326,200	0	N/A
Total	41	\$14,427,100	13	\$3,409,800

Source: OIG analysis of EPA data.

During our audit, Regions 4 and 6 began taking action on the 13 projects identified as no-progress. Specifically:

- Beginning in December 2014, Region 4 sent letters to 10 recipients. By the end of March 2015, Region 4 identified the 10 projects as potential no-progress, and of those 10 the region determined that:
 - Eight remained unobligated due to no action or interest from the recipient.

- One remained unobligated because no project was identified by the recipient.
- One remained unobligated due to scope issues.

Of those 10 grants, three recipients—Lee County, Taylor County Water and Sanitation District, and Metro North Georgia Cobb—relinquished funds, for a total amount of \$601,650.

- The remaining three SAAP projects identified as no-progress were from Region 6. In December 2014, Region 6 sent no-progress letters to two recipients—the cities of Roundrock and Grambling—for earmarks appropriated in FY 2010. By March 2015, both recipients verbally relinquished funds totaling \$582,000. The third recipient—the city of Leesville—was identified as unresponsive and would be included as no-progress in the next SAAP database update on or before September 30, 2015.

OWM provided limited monitoring and assessment of unobligated funds. Regional staff use the SAAP database to enter and update grant information, such as recipient name, appropriation year and grant amounts. Regions are requested to update this information at least semiannually. The database includes a mechanism to identify grants that have exceeded the programmatic goal to award grants within 3 years of appropriation. Instead, OWM primarily uses the database as a tool to keep track of grants for its end-of-year reconciliation. In its annual reports, OWM measures and describes the number of unobligated appropriated projects and amounts. However, this assessment is limited in that it does not include an evaluation of the program or actions necessary to reduce the number of unobligated funds.

Taking Actions on Unobligated Funds Not a Priority for Regions

Regions 4 and 6 provided various reasons as to why appropriated funds remained unobligated. Regional managers and staff said that lack of time and resources caused them to focus more on grants that were already obligated and moving forward rather than those still unobligated. Further, the FY 2012 SAAP Annual Report stated, “many people that have experience managing these (SAAP) grants are retiring,” and the report did not state that new hires would replace the retiring employees. Instead, the report said, “there were no new SAAP earmarks in FY 2013 so this workload will continue to decline as existing grants are awarded and closed out.” While existing grants have been awarded and closed out, the workload continues. During discussions with the regions, they said not all staff worked full time on the SAAP program and the regions received no additional staff for the program.

Regions 4 and 6 staff were hesitant to ask recipients to relinquish funds because congressional sponsors had designated the funds, and instead waited for recipients

to say they did not need the funds. There was caution regarding communication with recipients, due to the earmarks being congressionally appropriated and Congress had provided no timeframe to award the funds. Region 6 staff also said recipients did not always know that they had received funds. Regions 4 and 6 staff said that some recipients are small entities that may not have the capacity to submit applications within the 3-year goal.

Had the regions been more proactive in the management of appropriated SAAP funds, 13 no-progress letters could have been sent to recipients. While the OIG focused on Regions 4 and 6, there could be more unobligated funds identified as no-progress in other regions. We calculated for Regions 4 and 6 that—with congressional rescission—the EPA could return \$3,409,800 in funds to the U.S. Treasury, which represents funds that could be put to better use. Details on our calculations are in Appendix A.

Recommendation

We recommend that the Assistant Administrator for Water:

3. Develop and implement a plan to expedite the reduction of unobligated funds.

Agency Comments and OIG Evaluation

The agency agreed with the recommendations. In response to Recommendation 3, where large numbers of appropriations remain unobligated, the EPA indicated it will take actions by:

- Developing regionally-specific goals for reduction of unobligated funds.
- Further emphasizing in its communications the importance that the EPA devote both resources and priority to seeking either award of remaining unobligated appropriated funds or reprogramming of such funds to be held to meet any rescission that may be required.

The OIG believes the agency's actions are acceptable, but dates for implementation are required. Therefore we consider the recommendation unresolved.

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	Develop and communicate guidance to EPA regions aimed to further reduce SAAP grant unliquidated obligations by clarifying: <ul style="list-style-type: none"> • The time period that is reasonable for a grant to have no financial activity before taking steps to identify the grant as a no-progress grant. • The guidelines that determine a grant is making reasonable or sufficient progress. 	U	Assistant Administrator for Water		\$2,782.2	
2	7	Establish a method to identify at least semiannually grants with no financial activity for an extended period of time and take action with the regions to identify and help resolve the cause for delay or identify the grant as a no-progress grant.	U	Assistant Administrator for Water			
3	12	Develop and implement a plan to expedite the reduction of unobligated funds.	U	Assistant Administrator for Water		\$3,409.8	

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.

Details on Funds That Could Be Put to Better Use

Table A-1: Grant funds that could be put to better use (Chapter 2)

Recipient	Grant number	Unliquidated obligation
Paulding County	XP-96403604	\$1,840,900
Dona Ana Mutual Domestic Water Consumers Association	XP-96639501	120,500
Brazos River Authority	XP-96644401	482,100
Brazos River Authority	XP-96644501	96,200
City of Owenton	XP-96422405	242,500
Total		\$2,782,200

Source: OIG analysis of EPA data as of March 15, 2015.

Table A-2: Unobligated grant funds that could be put to better use (Chapter 3)

Recipient	Appropriation year	Unobligated amount
Lee County	2009	\$267,000
Taylor County Water and Sewer District	2010	291,000
West Lowndes County	2009	253,000
City of Rome	2010	291,000
West Knox Utility District and Ball Camp Community	2009	291,000
Metropolitan North Georgia Water Planning District - Cobb	2010	43,650
Metropolitan North Georgia Water Planning District - Locust Grove	2010	29,100
Metropolitan North Georgia Water Planning District - Hall	2010	63,050
City of Crawfordville	2010	485,000
City of Quincy	2010	426,000
City of Roundrock	2010	291,000
City of Leesville	2009	388,000
City of Grambling	2010	291,000
Total		\$3,409,800

Source: OIG analysis of EPA data as of February 13, 2015.

Agency Response to Draft Report

(Received September 10, 2015)

MEMORANDUM

SUBJECT: Draft Report: Unused Earmark Funds for Water Projects Totaling \$6.2 Million
Could Be Put to Better Use
Project No. OA-FY14-0182

FROM: Kenneth J. Kopocis
Deputy Assistant Administrator

TO: Janet Kasper, Director
Contracts and Assistance Agreements Audits

Thank you for the opportunity to respond to the subject draft report. We are pleased to see a section in the report noting the significant accomplishments in the Special Appropriation Act Projects (SAAP) program since completion of the program's Management Plan in 2011. We would like to further highlight that through FY14 there were just 71 unawarded grants, down by 47 percent from 2012, while active grants declined by 48 percent in the same time period. At present, there remain only 65 unawarded grants and 391 active grants. This solid progress is the result of a concerted effort on the part of the regions working within tight resource constraints.

The following table provides our response to the draft recommendations and corrective actions we would take where appropriate.

AGENCY'S RESPONSE TO DRAFT REPORT RECOMMENDATIONS

No.	Recommendation	Response or Corrective Action(s)	Estimated Completion
1	<ul style="list-style-type: none"> • Develop and communicate guidance to the EPA regions aimed to further reduce SAAP grant unliquidated obligations by clarifying the time period that is reasonable for a grant to have no financial activity before taking steps to identify the 	Response: The EPA will examine and look for ways to clarify and supplement current criteria regarding identification of a grant as a no-progress grant. Within this review, the EPA will consider to what extent an absolute criteria, such as a specified time period, is appropriate. Obviously the passage of many years is unreasonable and should be discouraged. Having said that, a more qualitative assessment of the circumstances, and of recipient efforts to move forward with completion of the funded work, provides a more robust policy	To be provided

	grant as a no-progress grant.	basis for the EPA to take adverse action against a recipient, potentially terminating the grant funding.	
	<ul style="list-style-type: none"> Develop and communicate guidance to the EPA regions aimed to further reduce SAAP grant unliquidated obligations by clarifying the guidance that determine a grant is making reasonable or sufficient progress. 	<p>Response: The EPA believes further clarification, narrowing, or otherwise tightening the expression “not making reasonable or sufficient progress” for an awarded grant needs to be done carefully. This designation is part of a process intended to help move awarded project forward and to liquidate awarded grants. The wording was chosen purposefully to describe continued and deliberate applicant effort. It was never intended to be a “bright line” standard that easily separates one situation from another.</p> <p>More broadly than the specific circumstances of the SAAP reviewed in Regions 4 and 6, there are legitimate reasons why a period of time can exist between applicant payments, and a program management standard cannot be narrowed so tightly as to be unrealistic.</p> <p>Corrective actions: The EPA will strengthen current guidance by:</p> <ul style="list-style-type: none"> Requiring greater recipient justification before the EPA extends the time available for use of the awarded funding. This will clarify whether or not the recipient truly is prepared to proceed with the funded project. It will also identify those situations where the EPA might assist in the resolution of an impediment to progress. Identifying awarded grants that have not drawn funding and the specific circumstances that are delaying either award of contracts or delaying requests for grant payment. If the recipient cannot complete the project within the grant budget period, it is technically in default of the grant terms and conditions. Program offices can preemptively begin dialog with such 	To be provided

		<p>recipients with respect to whether the grant term will be extended.</p> <ul style="list-style-type: none"> Encouraging greater use of the “no-progress” designation. This has proven helpful in improving discussion between the EPA, the recipient, and other parties who can influence circumstances that are delaying project progress. 	
2	<p>Establish a method to identify at least semiannually grants with no financial activity for an extended period of time and take action with the regions to identify and help resolve the cause for delay or identify the grant as a no-progress grant.</p>	<p>Response: The EPA already has both a policy and procedure to review the liquidation of awarded grant funds. Considering the relatively small and discrete universe of remaining SAAP awards, a focus of EPA effort could be taking action on grants that have been financially inactive for 180 days.</p> <p><i>NOTE-</i> Office of the Chief Financial Officer (OCFO) Umbrella Policy Directive, RMDS 2520-03-P1 (Administrative Control of Appropriated Funds) and Grants Policy Issuance (GPI) 11-01. All active assistance agreement awards receive a ULO review at least once a year and these reviews also be conducted of any assistance agreement where there is financial inactivity of greater than 180 days.</p> <p>Corrective actions: With respect to Table 2 on page 5 of the draft report, EPA agrees to the following actions pursuant to section 4.2 of the <i>2011 Management Plan for the Timely Award and Completion of Special Appropriations Act Project Grants</i></p> <ul style="list-style-type: none"> Determine the latest status of each grant and the funded project; Verify why there has been no financial activity; Make a fresh assessment if these grants should be identified as “no-progress;” Determine what actions if any the EPA could take to help the recipient resolve issues that are delaying project progress and liquidation of the grant; 	<p>To be provided</p>

		<ul style="list-style-type: none"> • Determine whether the grant should be wholly or partially terminated for material noncompliance with the terms and conditions of the award. • On the bi-monthly calls to the regions, the EPA will inquire on the status of any grants with standing issues. <p>With respect to the grants in Table A-1 on page 13 of the report, the EPA will follow through with actions initiated or being considered as described on page 6 of the report that could put these funds to better use.</p>	
3	Develop and implement a plan to expedite the reduction of unobligated funds.	<p>Response: The agency guidance already provides both the processes and techniques for prompting and supporting award of appropriated funding. Additionally, the EPA agrees to do the following where large numbers of appropriations remain unobligated :</p> <ul style="list-style-type: none"> • Consider developing regionally-specific goals for reduction of unobligated funds, and, • Recognizing the Report’s acknowledgement of a lack of resources as a factor in Regional performance, further emphasize in its communications the importance that the EPA devote both resources and priority to seeking either award of remaining unobligated appropriated funds, or reprogramming of such funds to be held to meet an rescission that may be required. 	To be provided

Contact Information

If you have questions regarding this response, please contact George Ames, Chief of the CWSRF Branch at (202) 564-0661 or ames.george@epa.gov or Chuck Fogg, Acting National SAAP Coordinator at (215) 814-5771 or fogg.charles@epa.gov.

cc: Water Division Directors, Region 1-X

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