



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

In response to a congressional request, the Office of Inspector General examined the execution of U.S. Environmental Protection Agency (EPA) grants awarded to the National Rural Water Association (NRWA) and the financial management practices used by NRWA under EPA grants.

Background

The NRWA is a nonprofit organization that provides technical assistance, training, and legislative representation to water providers serving rural communities. NRWA is a federation consisting of 48 State associations representing 49 States. Since October 2000, NRWA has received over \$70 million from EPA to provide training and technical assistance to rural water systems.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2007/20061130-2007-4-00027.pdf

Examination of Financial Management Practices of the National Rural Water Association, Duncan, Oklahoma

What We Found

NRWA's method of allocating indirect costs over total direct costs is contrary to the requirements of the Office of Management and Budget (OMB) Circular A-122. Currently, NRWA does not exclude subcontracts or subawards from its indirect cost allocation base. As a result, the EPA grants are bearing a disproportionate amount of indirect costs. For the period from March 1, 1999, to February 29, 2004, EPA grants may have been over-allocated by \$2,021,821 in indirect costs. The exact amount of the indirect over-allocation will be determined during negotiating the indirect cost rate.

NRWA's procedures do not identify all unallowable costs. Because NRWA does not have written procedures for reviewing costs, its current practice may not comply with OMB Circular A-122. NRWA's practice of charging costs based upon budgets does not comply with OMB's definition of direct costs. NRWA also does not consistently record costs based upon the actual activity performed. As a result, NRWA's direct and indirect costs may include unallowable costs and would conflict with its assertion in the cost allocation plan that only allowable costs are allocated to specific grants and programs.

NRWA's drawdowns for State associations' costs are based upon budgeted amounts and not on actual expenditures. Because NRWA is distributing payments based on budgeted and not actual State associations' costs, it may be providing cash advances in excess of the State associations' immediate needs.

What We Recommend

We recommend that the Director of the Grants Administration Division:

- Obtain final negotiated indirect cost rates for NRWA.
- Require NRWA to develop written procedures to (a) identify unallowable costs in accordance with OMB Circular A-122, and (b) develop written procedures for the preparation of cash draws.