



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Passaic Valley Sewerage Commissioners – Unallowable Costs Claimed Under EPA Grant XP98237601

Report No. 08-2-0226

August 6, 2008



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Abbreviations

EPA	U.S. Environmental Protection Agency
Grant	Grant XP98237601
Grantee	Passaic Valley Sewerage Commissioners
OIG	Office of Inspector General

Cover photo: Final clarifiers and influent baffles that increase the capacity of the Passaic Valley Sewerage Commissioners plant in Newark, New Jersey. (EPA OIG photo)



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) Office of Inspector General conducted reviews of earmarked grants known as Special Appropriation Act Projects issued to local and tribal governments. We selected the Passaic Valley Sewerage Commissioners for one of these reviews.

Background

In 2001, Passaic Valley Sewerage Commissioners received an EPA Special Appropriation Act Project grant, XP98237601. The purpose of the grant was to provide federal assistance of \$4,751,200 for rehabilitating existing final clarifiers, constructing a floating dock and off-loading facilities, and procuring thickening centrifuges at the grantee's location.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2008/20080806-08-2-0226.pdf

Passaic Valley Sewerage Commissioners – Unallowable Costs Claimed Under EPA Grant XP98237601

What We Found

The grantee claimed \$2,385,634 for pre-award costs under Grant XP98237601 that were incurred prior to the grant award and thus were unallowable under the grant administrative conditions and Office of Management and Budget Circular A-87. The federal share of the unallowable pre-award costs was \$1,312,099.

What We Recommend

We recommend that the EPA Regional Administrator, Region 2, recover \$1,312,099, the federal share of the unallowable pre-award costs.



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

OFFICE OF
INSPECTOR GENERAL

August 6, 2008

MEMORANDUM

SUBJECT: Passaic Valley Sewerage Commissioners –
Unallowable Costs Claimed Under EPA Grant XP98237601
Report No. 08-2-0226

FROM: Robert K. Adachi
Director of Forensic Audits

A handwritten signature in black ink that reads "Robert K. Adachi". The signature is written in a cursive style and is positioned to the right of the typed name.

TO: Alan J. Steinberg
Regional Administrator
EPA Region 2

This report contains a time-critical issue the Office of Inspector General (OIG) identified and recommends recovery of federal funds drawn down by the recipient. This report represents the opinion of the OIG and does not necessarily represent the final position of the U.S. Environmental Protection Agency (EPA). EPA managers will make final determinations on matters in this report.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$69,623.

Action Required

In accordance with EPA Manual 2750, Chapter 3, Section 6(f), you are required to provide us your proposed management decision for resolution of the finding contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due in 120 days, or on December 4, 2008. To expedite the resolution process, please e-mail an electronic version of your proposed management decision to adachi.robert@epa.gov.

We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>. If you have any questions, please contact Robert Adachi, Director of Forensic Audits, at (415) 947-4537 or at the e-mail address above.

Purpose

The Office of Inspector General is reviewing Special Appropriation Act Project Grants to identify issues warranting further analysis. This includes reviewing the total project costs incurred by selected grant recipients. During our review of the grants awarded to Passaic Valley Sewerage Commissioners (grantee), Newark, New Jersey, we identified the following condition that we believe requires immediate attention. The grantee claimed and was reimbursed for pre-award costs under Grant XP98237601 that are unallowable under the grant administrative conditions and Office of Management and Budget Circular A-87.

Background

The U.S. Environmental Protection Agency (EPA) Region 2 awarded Grant XP98237601 (grant) on March 22, 2001. The purpose of the grant was to provide federal assistance of \$4,751,200 for rehabilitating the existing final clarifiers, constructing a floating dock and off-loading facilities, and procuring thickening centrifuges. The amount represents EPA's contribution of up to 55 percent of the eligible project costs, and is limited by the amount of the congressional appropriation. The grantee was responsible for matching, at a minimum, 45 percent of the eligible project costs. Total project costs under the grant were \$8,638,545. The budget and project period for the grant was March 1, 2001, to December 31, 2005.

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 field work between March 10 and April 22, 2008. We performed the following steps:

- Reviewed EPA Region 2 project files;
- Reviewed grantee's supporting documents for grant drawdowns;
- Verified deposits of grant drawdowns to the grantee's bank statements;
- Conducted interviews of the grantee;
- Reviewed the grantee's procurement procedures and the selection of contractors to determine whether the grantee complied with the procurement requirements pursuant to Title 40 Code of Federal Regulations 31.36;
- Reviewed the transactions of the project costs to determine whether costs were incurred for construction only;
- Reviewed and verified invoices to the accounting record, cancelled checks, and the bank statements;
- Determined and verified that the grantee met the required match to the grant; and
- Toured the subject secondary wastewater treatment plant.

Finding

The grantee claimed three invoices under Grant XP98237601 totaling \$2,385,634 for costs that were incurred prior to the award. The costs were for procuring and installing three thickening centrifuges. Administrative Condition No. 1 of the grant states that "... it is agreed that any project costs incurred prior to midnight of the date preceding grant award shall be unallowable in their entirety." All terms and conditions in the original grant agreement remained in effect and were incorporated in both amendments 1 and 2. In addition, Office of Management and Budget Circular A-87, Attachment B, Section 31, states that pre-award costs are allowable only when necessary and only with the written approval of the awarding agency. The grantee did not obtain EPA's written approval.

The details of the three invoices, all under Contract 23A231, are as follows:

Table 1: Details on Three Invoices

Payment Date	Work Period Covered	Amount	Federal Share (55%)	Local Match (45%)
8/11/2000	Through 07/07/00	\$ 155,585	\$ 85,572	\$ 70,013
2/16/2001	Through 01/12/01	1,724,398	948,419	775,979
4/16/2001	Through 03/09/01	505,651	278,108	227,543
		\$ 2,385,634	\$ 1,312,099	\$ 1,073,535

Source: OIG review of invoices

A portion of the third invoice is allowable for the period March 1-9, 2001; however, we are unable to determine the amount of that portion from the documentation provided. Therefore, we are questioning the entire invoice. As a result, the grantee claimed \$2,385,634 in unallowable pre-award costs, including the federal share of \$1,312,099.

Recommendation

1. We recommend that the EPA Regional Administrator, Region 2, recover \$1,312,099, the federal share of the unallowable pre-award costs.

Grantee Comments

On June 17, 2008, we held a teleconference with representatives from EPA Region 2 and the grantee to obtain their comments regarding the factual accuracy of our discussion draft report. The grantee concurred with the factual accuracy of the report. Region 2 asked us to reword the recommendation to be consistent with a previous Office of Inspector General (OIG) Special Appropriation Act Project report. Region 2 stated that it was now in the process of amending the grant to reflect an earlier start date, which may make the questioned costs allowable.

OIG Response

Our position remains unchanged since the grantee concurred with the findings. We also did not change the recommendation to the language Region 2 suggested because the circumstances that prompted the previous report recommendation did not exist in this case.

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	2	Recover \$1,312,099, the federal share of the unallowable pre-award costs.	O	Regional Administrator, Region 2		\$1,312	

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

Distribution

Regional Administrator, Region 2
Director, Office of Wastewater Management, Office of Water
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Director, Grants and Interagency Agreements Management Division
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