



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Examination of Costs Claimed under EPA Grant XP98069201 Awarded to the City of Blackfoot, Idaho

Report No. 10-4-0086

March 29, 2010

Report Contributors:

Jessica Knight
Janet Lister
Lela Wong
Michael Owen

Abbreviations

CFR	Code of Federal Regulations
EDA	U.S. Economic Development Administration
EPA	U.S. Environmental Protection Agency
FSR	Financial Status Report
Grantee	City of Blackfoot, Idaho
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
SAAP	Special Appropriation Act Projects

Note: We have redacted information on page 9 of this report. Exemption (b)(6) of the Freedom of Information Act permits the government to withhold names of individuals when disclosure of such information “would constitute a clearly unwarranted invasion of personal privacy.” [5 U.S.C. § 552 (b)(6)]



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) Office of Inspector General is examining Special Appropriation Act Project (SAAP) grants. We selected the SAAP grant awarded to the City of Blackfoot, Idaho (grantee) for one of these examinations.

Background

EPA awarded grant number XP98069201 to the grantee on December 16, 1999. The purpose of the grant was to provide federal assistance of \$3,716,525 for wastewater and clean water system improvements. The City of Blackfoot was required to provide local matching funds equal to 47 percent of the EPA-awarded funds.

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/2010/20100329-10-4-0086.pdf

Examination of Costs Claimed under EPA Grant XP98069201 Awarded to the City of Blackfoot, Idaho

What We Found

The grantee did not meet financial management requirements specified by Title 2 Code of Federal Regulations Part 225 and Title 40 Code of Federal Regulations Part 31. In particular, the grantee claimed:

- Contract costs of \$1,713,009 that were claimed under two other federal grants.
- Supply and labor costs of \$24,836 that were not supported by source documents.
- Supply and administration costs of \$6,684 that were not eligible because they did not meet cost principles.

As a result of these issues, we determined that, based on payments made and the federal share being 53 percent, EPA should recover \$1,045,926 in questioned costs under the grant. The grantee also should be designated as “high-risk” in the Integrated Grants Management System, and special oversight conditions should be imposed on all future awards of EPA funds to the grantee.

What We Recommend

We recommend that EPA Region 10’s Regional Administrator disallow and recover \$1,045,926 in questioned costs. We also recommend that the Regional Administrator for all future awards to the grantee designate the grantee as “high-risk” and establish special conditions that require additional controls over payments.



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

OFFICE OF
INSPECTOR GENERAL

March 29, 2010

MEMORANDUM

SUBJECT: Examination of Costs Claimed under EPA Grant XP98069201
Awarded to the City of Blackfoot, Idaho
Report No. 10-4-0086

FROM: Robert Adachi 
Director of Forensic Audits

TO: Dennis McLerran
Regional Administrator
EPA Region 10

This report contains time-critical issues. The issues require immediate attention to ensure expeditious recovery of federal funds and implementation of additional controls over future awards to protect the government's interest. This report represents the opinion of the Office of Inspector General 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 \$108,097.

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 findings contained in this report before any formal resolution can be completed with the recipient. Your proposed decision is due in 120 days, or on July 27, 2010. 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 me at (415) 947-4537 or the e-mail address above.

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Introduction

Purpose

The Office of Inspector General is examining Special Appropriation Act Project (SAAP) grants to identify issues warranting further analysis. This process includes reviewing the total project costs incurred by selected SAAP grant recipients. During our examination of the SAAP grant awarded to the City of Blackfoot, Idaho (grantee), we identified that the grantee claimed costs that were also claimed under other federal grants, as well as unsupported and ineligible costs. We believe these issues require immediate attention to ensure expeditious recovery of federal funds and implementation of additional controls over future awards to protect the government's interest.

Background

The U.S. Environmental Protection Agency (EPA) Region 10 awarded grant number XP98069201 to the grantee on December 16, 1999. The purpose of the grant was to provide federal assistance of \$3,716,525 for wastewater and clean water system improvements. EPA's contribution to the project was 53 percent of approved costs not to exceed \$3,716,525. The grantee was responsible for matching, at a minimum, 47 percent of the eligible project costs. The grant's budget and project period was from December 17, 1999, to August 31, 2004.

Independent Attestation Report

As part of our continued oversight of SAAP grants, we have examined the project costs incurred and claimed by the grantee in its financial status reports (FSRs) covering the period January 1, 2000, to March 17, 2004. By signing the award documents, the grantee accepted responsibility for preparing its cost claim to comply with the requirements of Title 2 Code of Federal Regulations (CFR) Part 225 (*Cost Principles for State, Local, Indian Tribal Governments*), Title 40 CFR Part 31 (*Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*), and the terms and conditions of the grant. Our responsibility is to express an opinion on the grantee's final FSR based on our examination.

We conducted our examination in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, except that we did not obtain an understanding of the information systems controls since the grantee provided alternative documentation to support the costs claimed under the grant. Our examination was also limited in scope with regard to the grantee's procurement. Because the record retention period expired prior to our examination, the grantee was unable to provide all contract documentation. Consequently, we were not able to obtain and review all contracts for compliance with federal procurement regulations and contract terms and conditions. Our review was also conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. Despite the scope limitations, we believe that our examination provides a reasonable basis for our opinion.

We conducted our audit work between July 2008 and February 2010. We made a site visit to the grantee and performed the following steps:

- Toured the wastewater and clean water facilities.
- Reviewed the grantee's supporting documents for drawdowns under the project for all federal grants.
- Verified that 12 of the 22 drawdowns (54 percent) were deposited in the grantee's bank account.
- Judgmentally selected invoice payments with large dollar values and traced payments to cancelled checks and bank statements.
- Interviewed grantee and contractor employees to obtain an understanding of the project, as well as the grantee's processes for procurement, drawdowns of EPA grant funds, and invoice payment.
- Interviewed the Single Auditor and reviewed the auditor's working papers to obtain details on costs claimed under each federal grant that funded the project.
- Performed various fraud detection procedures, including: (1) reviewing city council meeting minutes; and (2) performing a duplicate claims analysis by comparing costs claimed by the grantee under the EPA grant, U.S. Department of

Housing and Urban Development (HUD) Grant HDRI-99-V-4, and
U.S. Economic Development Administration (EDA) Grant 07-01-03824.

As part of obtaining reasonable assurance that the final FSR is free of material misstatement, we performed tests of its compliance with the requirements of Title 2 CFR Part 225, Title 40 CFR Part 31, and the terms and conditions of the grant. We also considered the grantee's internal controls over cost reporting to determine our audit procedures and to express our opinion on the final FSR. Our consideration of internal controls would not necessarily disclose all internal control matters that might be material weaknesses. A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement will not be prevented or detected. A significant deficiency is a deficiency in internal control, or combination of control deficiencies, that adversely affects the grantee's ability to initiate, authorize, record, process, or report data reliably, in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Our examination disclosed the following noncompliance and material weaknesses concerning financial management requirements specified by Title 2 CFR Part 225 and Title 40 CFR Part 31. In particular, the grantee claimed:

- Contract costs of \$1,713,009 that were also claimed under two other federal grants.
- Supply and labor costs of \$24,836 that were not supported by source documents.
- Supply and administration costs of \$6,684 that were not eligible because they did not meet cost principles.

As a result of these issues, we determined that, based on payments made and the federal share being 53 percent, EPA should recover \$1,045,926 in questioned costs under the grant.

In our opinion, because of the effect of the issues described above, the final FSR does not meet, in all material respects, the requirements of Title 2 CFR Part 225 and Title 40 CFR Part 31, and the terms and conditions of the grant for the period ended March 17, 2004.



Robert K. Adachi
Director of Forensic Audits
March 29, 2010

Results of Examination

The grantee did not meet financial management requirements specified by Title 2 CFR Part 225 and Title 40 CFR Part 31. In particular, the grantee claimed:

- Contract costs of \$1,713,009 that were also claimed under two other federal grants.
- Supply and labor costs of \$24,836 that were not supported by source documents.
- Supply and administration costs of \$6,684 that were not eligible because they did not meet cost principles.

As a result of these issues, EPA should recover \$1,045,926 in questioned costs under the grant. The grantee also should be designated as “high-risk” in the Integrated Grants Management System, and special conditions should be imposed on all future awards of EPA funds to the grantee. Table 1 provides more details on the questioned costs.

Table 1: Summary of Questioned Costs

Cost Category	Questioned Costs
Project Costs	\$6,783,395
Less: Questioned Costs	
Duplicate Contract ¹	\$1,713,009
Unsupported Supply & Labor ²	\$24,836
Ineligible Supply & Administration ³	\$6,684
Total Allowable Costs	\$5,038,866
Federal Share (53%)	\$2,670,599
Payments Made	\$3,716,525
Amount Owed to EPA	\$1,045,926

¹See discussion under *Duplicate Contract Costs Not Allowable*.

²See discussion under *Unsupported Costs Not Allowable*.

³See discussion under *Ineligible Costs Not Allowable*.

Sources: Project cost data provided by the grantee. Costs questioned were based on OIG’s analysis of the data.

Duplicate Contract Costs Not Allowable

The grantee claimed \$1,713,009 in contract costs that were not allowable because the costs were also claimed under two other federal grants. The \$1,713,009 in unallowable costs consisted of \$266,972 also claimed under HUD Grant HDRI-99-V-4 and \$1,446,037 also claimed under EDA Grant 07-01-03824. According to the grantee, it believed, based on discussions with managers from EPA and EDA, that using the funding under the three agencies’ grants as match against each other was acceptable. However, Title 2 CFR Part 225, Appendix A C(1)(h), specifies that costs claimed under a federal award must not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as

specifically provided by federal law or regulation, in order to be allowable. EPA's SAAP guidance and the Fiscal Years 1998 and 2000 appropriations designating the funding for the grant did not provide the grantee with an option to claim costs under the award that were also claimed under the EDA grant. The costs also claimed under the HUD grant were reimbursed 100 percent by HUD and therefore are ineligible for further reimbursement. Therefore, we question the \$1,713,009 claimed under the grant.

Unsupported Costs Not Allowable

The grantee claimed \$24,836 in supply and labor costs that are not allowable because of the documentation requirements specified by Title 2 CFR Part 225 and Title 40 CFR Part 31. The \$24,836 consisted of \$20,741 in labor and \$4,095 in supply costs. Title 2 CFR Part 225, Appendix A C(1), states that costs must be adequately documented to be allowable under a federal award. According to Title 2 CFR Part 225, Appendix B, 8(a) and (h), all charges to federal awards for salaries and wages need to be based on actual payroll costs. Title 40 CFR Part 31.20(b)(6) specifies that accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, and time and attendance records. The grantee supported the claimed labor costs with a maintenance work report that listed the labor costs. However, the labor costs were not supported by payroll records. The grantee's documentation for the supply costs consisted of hand-written cost summaries rather than the suppliers' invoices. Because the supply and labor costs were not supported by source documents, we question the \$24,836 claimed under the grant.

Ineligible Costs Not Allowable

The grantee claimed \$6,684 in supply and administration costs that were ineligible under the grant because they did not meet cost principles specified by Title 2 CFR Part 225. Title 2 CFR Part 225, Appendix A C(1)(b), specifies that costs must be allocable to the award in order to be allowable. According to Title 2 CFR Part 225, Appendix A C(3)(a), a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. The \$6,684 in ineligible costs consisted of \$2,484 in supplies and \$4,200 in grant administration fees. Review of the supporting invoices disclosed that these costs were not related to the work conducted under the grant. The \$2,484 in supplies consisted of office supplies for city departments and diesel for a generator that were not associated with work funded by the grant. The \$4,200 in grant administration fees were fees related to the management of the HUD grant. Since these costs did not benefit the EPA grant, we question the \$6,684 as not allowable.

Grantee Should Be Designated "High-Risk"

Based on the findings above, the grantee does not meet the minimum requirements for a financial management system and should be designated as "high-risk" in the Integrated Grants Management System. Under Title 40 CFR Part 31.12(a)(1) and (3), a grantee may be considered high-risk if an awarding agency determines that a grantee has: (a) a history

of unsatisfactory performance, or (b) a management system that does not meet the management standards set forth in the regulation. Title 40 CFR Part 31.12(a)(5) also requires that special conditions and/or restrictions be included in awards to high-risk grantees. Therefore, we recommend that special conditions be imposed on all future awards of EPA funds to the grantee. The special conditions should include: (a) payment on a reimbursement basis, and (b) EPA review and approval of reimbursement requests prior to payment.

Our examination of the grantee's accounting system also identified that other funding agencies have no assurance that costs claimed under their funding agreements are allowable. As discussed in the report, we questioned \$1,713,009 in contract costs that were claimed under the HUD and EDA grants. Therefore, HUD and EDA should consider examining costs claimed under their current funding agreements with the grantee.

Recommendations

We recommend that Regional Administrator, EPA Region 10:

1. Disallow and recover \$1,045,926 of questioned costs under the grant.
2. Designate the City of Blackfoot as a high-risk grantee in the Integrated Grants Management System. Also, require the following special conditions to be included for all future EPA awards to the grantee until the Region determines that the grantee has met all applicable federal financial and procurement requirements:
 - (a) Payment on a reimbursement basis.
 - (b) Review and approval by the EPA project officer of reimbursement requests including all supporting documentation for the claims prior to payment.

Region 10 and Grantee Comments

We held an exit conference with representatives from Region 10 and the grantee on March 9, 2010, to obtain their comments on the findings and recommendations in the discussion draft. Region 10 did not comment on the findings and recommendations during the exit conference, while the grantee provided verbal comments. The grantee also submitted a written response to the findings on March 12, 2010. Appendix A provides the full text of the grantee's written comments.

The grantee did not agree with the report's findings and recommendations. The grantee stated that the Wastewater Treatment Plant project was funded by a combination of City and EPA grant funds. According to the grantee, it provided approximately 47 percent of the project's funding, which came from a \$3,125,000 bond and \$134,431 in cash. The grantee said that the EPA grant provided the remaining 53 percent of funding for the project. With regard to the EDA grant, the grantee stated that it paid \$264,521 in project

costs and received \$1,000,000 in EDA funds to pay for the water and sewer lines to the Spudnik Industrial Park. The grantee said it used paid invoices from the Wastewater Treatment Plant project to show matching funds to obtain the EDA grant funds.

The grantee stated that it relied on the advice of EDA and HUD that portions of the EPA project could be included in the scope of work for their respective projects. The grantee said that it relied on guidance from the EPA Region 10 project manager indicating that it was acceptable to submit project invoices under multiple grants for reimbursement. According to the grantee, the EPA project manager told the grantee that normally this practice was not acceptable but in this case EPA was making an exception. The grantee also said that it believed that the EPA project manager had the authority to make the decision on the exception or had been in communication with someone who held that authority.

OIG Response

Our position on the findings and recommendations remains unchanged. We acknowledge that the grantee obtained a bond and used City funding to cover a portion of the costs for the EPA project. However, our review of the costs claimed under the EPA grant revealed that invoices with a total cost of \$1,713,009 had also been claimed under the EDA and HUD grants. As discussed in the report, EPA's SAAP guidance and the Fiscal Years 1998 and 2000 appropriations designating the funding for the grant did not provide the grantee with an option to claim the same costs under both the EPA and EDA grants. In addition, the grantee did not have formal approval from EDA to claim costs reimbursed by EPA to meet matching funding requirements under the EDA grant. According to EDA's Regional Counsel, when a recipient uses funds from another federal agency to meet matching requirements, the EDA must have a memorandum of agreement with the other agency. With regard to the costs claimed under both the EPA and HUD grants, the grantee received 100 percent reimbursement by HUD. Therefore, costs claimed under the HUD grant were ineligible for further reimbursement.

We acknowledge that the grantee received guidance from the EPA project manager on reimbursement claims under the grants; however, that guidance was incorrect. Neither the grantee nor the Agency were able to provide documentation during the audit showing that senior EPA management approved the grantee to claim the same costs under multiple federal awards.

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	6	Disallow and recover the \$1,045,926 of questioned costs under the grant.	U	Region 10 Regional Administrator		\$1,045.9	
2	6	Designate the City of Blackfoot as a high-risk grantee in the Integrated Grants Management System. Also, require that the following special conditions be included for all future awards to the grantee until the Region determines that the grantee has met all applicable federal financial and procurement requirements: (a) Payment on a reimbursement basis. (b) Review and approval by the EPA project officer of reimbursement requests including all supporting documentation for the claims prior to payment.	U	Region 10 Regional Administrator			

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

Grantee Response*March 12, 2010***Point Number 1:**

- The WWTP project was funded by a combination of City funds and EPA Stag grant funds. It is the City's belief that approximately 47% of the funding (\$3,125,000 in bonds & \$134,431 City cash) for the WWTP project was provided by the City and approximately 53% (\$3,716,625) of the funding was provided by the EPA Grants.
- On the EDA project, the City paid \$264,521 and received \$1,000,000 in EDA funds to pay for the water and sewer lines to the Spudnik Industrial Park. Paid invoices from the WWTP project were used on the EDA Water and Sewer Line project to show matching funds in order to obtain \$1,000,000 in EDA grant funds.

Point Number 2:

- The City relied on the advice of all of the agencies involved who provided grants and grant management on additional related projects (like the UV and the Spudnik line/EDA and HUD) that portions of the EPA project could be included in the scope of the work for their project.
- The agency representatives consulted regarding this project were not just "EPA staff" but were "the EPA project manager" to which the City was required to report. [REDACTED] [REDACTED], being the EPA project manager, had significant authority with regards to our project. He had the authority and responsibility to sign off on each phase of the project before we could proceed to the next phase. Thus the City clearly relied on the information communicated by his as factual.

Text redacted
pursuant to
5 U.S.C.
552(b)(6).

Additionally, [REDACTED] stated it was normally not acceptable but in this case the EPA was making an exception, leading us to believe he had the authority to make that decision, or at least he had communication (written or verbal) from someone who held that authority.

Please call if you have any comments or questions.

Thanks.

Mike Virtue, Mayor
City of Blackfoot

Appendix B

Distribution

Regional Administrator, Region 10
Assistant Administrator, Office of Water
Director, Office of Grants and Debarment, Office of Administration and Resources
Management
Director, Grants and Interagency Agreements Management Division, Office of
Administration and Resources Management
Acting Director, Office of Financial Management, Office of the Chief Financial Officer
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Region 10 Audit Follow-up Coordinator
Region 10 Public Affairs Office
Region 10 Special Appropriation Act Projects Coordinator
Mayor, City of Blackfoot, Idaho
Acting Inspector General