



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Quick Reaction Report

Excess Federal Funds Drawn on EPA Grant No. XP98838901 Awarded to the City of Huron, South Dakota

Report No. 2007-2-00030

August 1, 2007



Report Contributors:

Robert Adachi
Eileen Collins
Jan Lister
Janet Kasper

Abbreviations

EPA	U.S. Environmental Protection Agency
Grantee	City of Huron, South Dakota
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover photo: Drinking Water Treatment Plant in Huron, South Dakota
(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 (OIG) conducted a review of earmarked grants known as Special Appropriation Act Projects issued to State and tribal Governments. The City of Huron, South Dakota, was selected for a site review.

Background

The City of Huron received an EPA Special Appropriation Act Project grant, XP98838901. The purpose of the grant was to provide Federal assistance of \$3,871,500 for the upgrade of a water treatment plant. The City of Huron is required to provide local matching funds equal to 55 percent of the EPA-awarded funds.

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/2007/20070801-2007-2-00030.pdf

Excess Federal Funds Drawn on EPA Grant No. XP98838901 Awarded to the City of Huron, South Dakota

What We Found

The City of Huron did not reduce the total grant costs by \$947,586 for amounts received from local water agencies. These local agencies provided funds to the City of Huron to offset project costs. Under Office of Management and Budget Circular A-87, Attachment A, the City of Huron needs to reduce the total project costs by the reimbursements received. The reduction in project costs resulted in the City of Huron having drawn \$68,203 of excess Federal funds. The City of Huron is also anticipating receiving additional reimbursements upon completion of the project, which should result in the repayment of additional funds.

What We Recommend

We recommend that the EPA Region 8 Regional Administrator require the City of Huron to:

1. Repay \$68,203 for excess Federal funds drawn.
2. Advise EPA of all future reimbursements.
3. Repay 55 percent of all future reimbursements.



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

OFFICE OF
INSPECTOR GENERAL

August 1, 2007

MEMORANDUM

SUBJECT: Excess Federal Funds Drawn on EPA Grant No. XP98838901
Awarded to the City of Huron, South Dakota
Report No. 2007-2-00030

TO: Robert E. Roberts
Regional Administrator
EPA Region 8

This report contains time-critical issues the Office of Inspector General (OIG) identified and proposes recommendations for recovery. 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.

Action Required

Please provide a written response to this report within 30 calendar days. You should include a corrective action plan for agreed upon actions, including milestone dates. 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 or your staff have any further questions, please contact me at 202-566-0847 or roderick.bill@epa.gov; or Janet Kasper, Director, Assistance Agreement Audits, at 312-886-3059 or kasper.janet@epa.gov.

A handwritten signature in black ink, appearing to read "Bill A. Roderick". The signature is written in a cursive style and is positioned above a horizontal line.

Bill A. Roderick
Acting Inspector General

Purpose

During our audit of Special Appropriation Act Projects, the following condition came to our attention, which we believe requires your immediate attention. The City of Huron, South Dakota, (grantee) did not reduce the costs claimed under grant no. XP98838901 (grant) for credits it received from other entities that contributed funds when those credits reduced project costs.

Background

The grant was awarded on July 27, 2001. The purpose of the grant was to provide Federal assistance of \$3,871,500 for the upgrade of the water treatment plant. The \$3,871,500 represents the U.S. Environmental Protection Agency's (EPA's) contribution of up to 55 percent of the eligible project costs. The grantee is responsible for matching, at a minimum, 45 percent of the eligible project costs. EPA amended the grant to provide a total of \$3,991,500 in Federal funds with total project costs of \$7,257,273.

Scope and Methodology

We performed our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, with the exception of gaining a complete understanding of internal controls as required under Section 7.11 and gaining an understanding of information control systems as required under Section 7.59. We did not obtain a complete understanding of the internal control system since the limited nature of our review focused on the source documents that support costs claimed under the grant. We also did not test the recipient's grant drawdown process or test the recipient's process for entering information into its accounting system. Instead, we relied upon the information contained in the recipient's accounting system for grant revenues and expenditures. We did not obtain an understanding of information control systems since the review of general and application controls was not relevant to the assignment objectives. Instead, we relied on the information contained in the grantee's information control systems and relevant output data. We conducted our field work between January 9, 2007, and May 16, 2007.

We made site visits to the grantee and performed the following steps:

- Obtained and reviewed State of South Dakota project files,
- Conducted interviews of grantee personnel,
- Obtained and analyzed the grantee's electronic accounting files, and
- Obtained and analyzed EPA and Drinking Water State Revolving Fund grant draws.

Finding

The grantee did not reduce the total grant costs by the amounts received from local water agencies. These local water agencies provided funds of \$947,586 to the grantee to offset total project costs. Under Office of Management and Budget (OMB) Circular A-87, Attachment A, receipts or reductions that offset or reduce expenses allocable to Federal awards are credits. Applicable credits shall be used as a cost reduction or refund to the Federal award. The grantee received \$947,586 from the following entities:

Table 1: Reimbursements Received from Local Water Agencies

Paid By:	Amount	Reason for Payment
Mid-Dakota Rural Water System, Inc.	\$243,259	Assistance to City for installation of piping and appurtenances related to the new water treatment plant, transmission line, and well field.
Mid-Dakota Rural Water System, Inc.	\$600,000	Assistance to City for construction of 1.5 million gallon water storage tank.
James River Water Development District	\$23,750	Engineering fees on the water tower.
James River Water Development District	\$5,577	Engineering fees on the water tower.
Central Plains Water Development District	\$75,000	Engineering fees on the water tower.
Total	\$947,586	

Sources: City of Huron; Mid-Dakota Rural Water System, Inc.; and James River Water Development District

Under OMB Circular A-87, Attachment A, the grantee needs to reduce the total project costs under the grant by \$124,006 due to the reimbursements received from the local water agencies. See Table 2 for analysis and details. The reduction in project costs will result in the grantee having drawn \$68,203 of excess Federal funds under the grant.

Table 2: Analysis of Project Costs and Grant Overpayment

Water Treatment Plant Upgrade	Amount
Total Project Costs	\$8,815,326
<i>Less:</i> Federal Funds Included in Drinking Water State Revolving Fund Used to Finance Project	(\$734,473)
Subtotal Project Costs	\$8,080,853
<i>Less:</i> Reimbursements	(\$947,586)
Eligible Project Costs	\$7,133,267
Project Costs per Final Financial Status Report	\$7,257,273
Difference Between Claimed and Actual Project Costs	\$124,006
Federal Share and Potential Overpayment	\$68,203

Source: OIG analysis of City of Huron data

The grantee is anticipating receiving an additional reimbursement from the James River Water Development District upon completion of the project. The grantee estimates the reimbursement could be as much as \$75,000. Based upon a reimbursement of \$75,000, the grantee would be required to repay the EPA 55 percent of the reimbursement, or \$41,250.

Recommendations

We recommend that the Regional Administrator, EPA Region 8, require the City Huron to:

1. Repay \$68,203 for excess Federal funds drawn.
2. Advise EPA of all future reimbursements.
3. Repay 55 percent of all future reimbursements, including amounts received from the James River Water Development District.

Auditee's Comments

The grantee considers the funds received from the various water agencies as part of the funds available for use as match. The grantee also believes that OMB Circular A-87 does not specifically identify reimbursements in the examples listed as the type of funds required to offset costs paid by the Federal grant.

OIG Response

Our position remains unchanged. Mid-Dakota Rural Water System, Inc., stated it provided funds to assist the "City for installation of piping and appurtenances related to the new water treatment plant, transmission line, and well field," as well as the "construction of 1.5 million gallon water storage tank." Mid-Dakota did not state that the funds were for the local match portion of the EPA grant. The basic requirement under OMB Circular A-87 is that receipts or reductions that offset or reduce expenses allocable to Federal awards are credits. The reimbursements received by the grantee fit the definition of a credit. OMB Circular A-87 does provide some examples of transactions that would qualify as an applicable credit. However, the examples cited are not all inclusive.

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	3	Require the City of Huron to repay \$68,203 for excess Federal funds drawn.	U	Regional Administrator, EPA Region 8	TBD	\$68	
2	3	Require the City of Huron to advise EPA of all future reimbursements.	U	Regional Administrator, EPA Region 8	TBD		
3	3	Require the City of Huron to repay 55 percent of all future reimbursements, including amounts received from the James River Water Development District.	U	Regional Administrator, EPA Region 8	TBD	\$41	

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.

Distribution

Regional Administrator, Region 8
Director, Office of Wastewater Management, Office of Water
Director, Office of Wastewater Management - Municipal Services Division, Office of Water
Director, Office of Grants and Debarment
Director, Grants and Interagency Agreements Management Division
Agency Followup Official (the CFO)
Agency Followup Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Region 8 Audit Followup Coordinator
Region 8 Public Affairs Office
Acting Inspector General