



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

During our review of the single audit of the State of Alaska, the single auditor raised issues that potentially impact the allowability of expenditures incurred by the State of Alaska Department of Environmental Conservation (State).

Background

The Single Audit Act of 1984 established uniform entity-wide audit requirements for State and local governments receiving Federal financial assistance. The State's Division of Legislative Audit performed the single audit for the year ended June 30, 2004. In fulfilling the requirements of the Single Audit Act, the Office of Inspector General reviews and disseminates the results of single audits to responsible U.S. Environmental Protection Agency (EPA) officials. The State identified \$32,976,401 in Federal expenditures for EPA grants under the Alaska Village Safe Water program.

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/2006/20060726-2006-3-00168.pdf

Single Audit Report for the State of Alaska Department of Environmental Conservation for the Year Ended June 30, 2004

What We Found

The single audit questioned \$1,115,721 in labor costs because State employees did not account for their activities in accordance with Federal requirements. We have questioned the balance of the EPA grant amounts of \$31,860,680 because:

- The State claimed disbursements that were advances and not actual costs.
- The State did not correctly report assets and expenditures.
- The State did not follow procurement procedures.

We also found that the State did not adequately monitor its subrecipients. While the State contracted for a third-party certified public accountant firm to assess a subrecipient's compliance with managing State funds, the State did not follow up with problems identified with this subrecipient. This subrecipient also earned interest and dividend income, contrary to EPA regulations. We estimate that the potential amount of Federal interest earned on the over \$100 million in investments from 2001 to 2004 would be over \$8 million.

The State had not corrected findings from the prior year single audit. In particular, disbursements made by the State were advances and not actual costs. The State also had not correctly reported assets and expenditures.

What We Recommend

We recommend that the Acting Regional Administrator, EPA Region 10:

- Implement the single audit recommendations and disallow \$1,115,721 of labor costs.
- Require the State to prepare and submit an indirect cost rate proposal for indirect costs related to direct labor costs.
- Disallow the remaining \$31,860,680 of costs associated with EPA funds until the State can provide actual cost data.
- Require the subrecipient to remit dividend and interest earned on EPA funds.
- Require the State to enter into an agreement with the Consortium to recognize and support (1) the direct transfer of EPA grant funds from the State to the Consortium, and (2) the Consortium's responsibility to comply with all EPA grant requirements.
- Place the State on a reimbursable payment basis until EPA determines the State's cash management, labor, and financial reporting systems meet Federal requirements, and the recommendations of this report are fully satisfied.