



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Oversight for the Alaska Village Safe Water Program Needs Improvement

Report No. 2004-P-00029

September 21, 2004



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Cover Photo:

Courtesy of National Park Service
Tidewater Glacier in Glacier Bay, Alaska



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

OFFICE OF
INSPECTOR GENERAL

September 21, 2004

MEMORANDUM

SUBJECT: EPA Oversight for the Alaska Village Safe Water Program Needs Improvement
Report No. 2004-P-00029

/s/ *Michael A. Rickey*

FROM: Michael A. Rickey
Director of Assistance Agreement Audits

TO: Ron Kreizenbeck
Acting Regional Administrator
EPA Region 10

This is our final report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe problems the OIG has identified and corrective actions the OIG recommends. We discussed our findings with your staff and issued a draft report. We have summarized your comments in this final report and included your complete response in Appendix B. This report represents the opinion of the OIG and the findings do not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

Action Required

Your response to the draft report included corrective actions with an estimated completion date of June 30, 2005. As a result, no response to this report is necessary. We ask that you provide us with the status of your corrective actions and whether all were completed by June 30, 2005. We have no objections to the further release of this report to the public. For your convenience, this report will be available at <http://www.epa.gov/oig>.

We want to express our appreciation for the cooperation and support from your staff during this audit. If you or your staff have any questions about this report, please contact me at (312) 886-3037, or Robert Adachi, Assignment Manager, at (415) 947-4537.

Executive Summary

Purpose

From March 1995 through July 2004, EPA awarded 15 grants representing \$232 million to the Alaska Department of Environmental Conservation (State) for the Village Safe Water Program. The grants fund the construction of water and sewer systems in rural Alaska. On January 9, 2004, the Alaska State Legislature Division of Legislative Audit issued an audit report regarding selected projects of the Village Safe Water Program that raised a number of oversight issues and included recommendations for improvement. As a result, we conducted an audit to answer the question: Is EPA Region 10's (Region) oversight of grants in support of the Alaska Village Safe Water Program sufficient to safeguard the funds and ensure effective results?

Results in Brief

We found that the Region did not provide sufficient oversight over grants awarded to the State to safeguard the funds and ensure effective results. The Region's oversight did not comply with the guidance established for earmark grants, even though the guidance was readily available. The lack of oversight was due to the Region's perception that the earmark grants awarded for the program were pass-through funds and did not require the oversight and management required of other grants. In addition, EPA and Regional management assumed that oversight was being performed, even though there was no documentation to support the assumption.

The Region did not have an overall plan for the implementation, conduct, and monitoring of the grants for the program. The Regional Strategic Plan did not specifically address the goals for the program outlined in the EPA National Strategic Plan. The Region did not develop goals, objectives, and measures for the grants awarded for the Village Safe Water Program, as required, despite \$232 million being awarded to the State. The Region did not place the needed emphasis on the program after it evolved from a small pilot project to a large, continuing program.

The Region's lack of oversight impacted the efficiency and effectiveness of the grants. For example:

- The Region was unaware of deficiencies outlined in the Alaska Legislative Auditor's report.
- The State had an excessive cash balance of more than \$13 million as of June 30, 2002.

- The Region could not determine whether environmental and health objectives were met.
- The Region was unable to determine whether grants met legislative objectives to improve health and sanitation conditions.
- The Region was unable to determine whether funds were appropriately allocated between (a) construction and (b) training, technical assistance, and educational programs relating to operation and maintenance in order to protect the Government's investment.

Recommendations

We recommend that the Region 10 Administrator improve Village Safe Water Program oversight through: (a) increased emphasis on grants management; and (b) establishment of goals, objectives, and outcomes to ensure that grants are meeting legislative objectives.

Region 10 Response and OIG Comment

The Region agreed with the draft report recommendations and indicated the following corrective actions have been or will be taken:

- **Corrective actions taken prior to the audit:** These actions emphasized training for project officers, supervisors and grants specialists; post- award monitoring training; and a post-award monitoring policy established by EPA Headquarters.
- **Corrective actions taken during the course of the audit:** These actions included establishing objectives and time lines for the State's fiscal year 2005 grant workplan; updating the position descriptions and performance agreements of project officers and their supervisors; and notifying the State that it must change its cash drawdown policies to comply with U.S. Treasury requirements.
- **Corrective actions to be implemented after the audit:** These actions emphasized the inclusion of the Alaska Village Safe Water Program in the Region's Strategic Plan, developing measures to determine the environmental and health benefits realized; a commitment to manage the grants in accordance with established policy; and ensuring that proper resources are allocated to management and oversight of grants awarded to the State.

The Region set a deadline of June 30, 2005, for the completion of all corrective actions. We recognize the Region's responsiveness to the audit findings and recommendations and its willingness to improve its oversight of the Alaska Village Safe Water Program. The full text of the Region's response is in Appendix B.

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Chapter 1

Introduction

Purpose

On January 9, 2004, the Alaska State Legislature Division of Legislative Audit (Legislative Auditor) issued an audit report regarding the Alaska Department of Environmental Conservation (State). The report addressed the State's spending practices used for the Alaska Village Safe Water Program. The audit recommended the Village Safe Water Program be transferred to Alaska's Department of Transportation and Public Facilities, and raised the following issues:

- Lack of State oversight;
- Inadequate monitoring by State engineers;
- Lack of oversight of onsite managers;
- Questionable purchasing; and
- Questionable projects in recent subdivisions.

These issues raised concerns regarding the Environmental Protection Agency (EPA) Region 10's (Region) oversight of grants awarded to the State. As a result, we conducted an audit to answer the question: Is EPA Region 10's oversight of grants in support of the Alaska Village Safe Water Program sufficient to safeguard the funds and ensure effective results?

Background

Congress authorized the U.S. Public Health Service to construct water and sanitation systems in Alaska Native communities beginning in 1959. Between 1960 and 2001, more than \$1.1 billion in Federal and State funds was spent on water and sewage systems in Native villages. Federal funds were provided by the Indian Health Service, the Department of Agriculture, the Department of Housing and Urban Development, and EPA.

In 1994, the U.S. Congress Office of Technology Assessment published a report regarding sanitation challenges in Alaskan Native villages. About one-fourth of Alaska's 86,000 Native residents lived without running water and used plastic buckets – euphemistically called “honey buckets” – for toilets. As a result of this inadequate sanitation, certain diseases (e.g., hepatitis A and impetigo) continued to be of concern in rural Alaska.

In 1996, Congress passed Public Law 104-182, amending Section 303 of the Safe Drinking Water Act. Under the amendments, EPA may make grants to Alaska for the benefit of rural and Native villages to pay the Federal share of the cost of:

- The development and construction of public water systems and wastewater systems to improve the health and sanitation conditions in the villages; and
- Training, technical assistance, and educational programs relating to the operation and management of sanitation services in rural and Native villages.

The grants to the State of Alaska have been funded through earmarks authorized by EPA's annual appropriation. An earmark is a portion of an appropriation that is to be spent on a particular project.

From March 1995 through July 2004, the Region awarded 15 grants, totaling \$232 million, to Alaska to fund the Village Safe Water Program. Schedule I of this report provides details. Nine grants totaling \$225 million (97 percent of all grant funding) have gone toward infrastructure in the form of construction projects. The six remaining grants totaling \$7 million (3 percent) have gone toward Remote Maintenance Worker/Rural Utility Business Advisor projects, which provide funding for training, technical assistance, and educational programs related to the construction and operation and maintenance of sanitation infrastructure.

The State of Alaska recognized the need for adequate water and sewer systems through the passage of the Village Safe Water Act in 1970. The purpose was to "establish a program designed to provide safe water and hygienic disposal facilities in the state." The Village Safe Water Program provides grants to unincorporated villages with populations of 25 to 600. The program has offices in both Juneau (administrative) and Anchorage (18 engineering personnel). The engineers directly assist communities. The program is funded from three primary sources: grants from EPA, grants from the U.S. Department of Agriculture, and State of Alaska capital project funds. For the State fiscal year ending June 30, 2004, the Village Safe Water Program had a budget of \$81 million, of which EPA provided \$32 million.

Scope and Methodology

The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit field work was performed between March 10 and May 17, 2004. Our audit was primarily conducted at EPA Region 10 in Seattle, Washington, and EPA Alaska Operations Offices in Anchorage and Juneau, Alaska. We visited the Legislative Auditor's offices in Juneau and Anchorage to obtain background information on audits performed, as well as the Legislative Auditor's role in the Single Audit Act audit of the State of Alaska. See Appendix A for details on scope and methodology.

Chapter 2

Improvement in Grant Oversight Needed

The Region must improve its oversight of the grants awarded for the Village Safe Water Program. The Region's monitoring procedures did not comply with EPA requirements for pre-award and post-award reviews. Although oversight guidance for earmark grants was readily available, it was not applied to Village Safe Water Program grants. These conditions resulted from the Region's perception that earmarks did not require as much oversight as regular grants. In addition, EPA and Regional management assumed that oversight was being performed even though there was no documentation to support the assumption. The Region's lack of oversight impacted the efficiency and effectiveness of the grants and resulted in administrative problems, excess cash balances, and the continuation of existing human health issues.

Monitoring Procedures Did Not Follow Guidance

The Region's monitoring procedures did not comply with EPA requirements for pre-award and post-award reviews. Pre-award procedures did not ensure that grant applications contained required elements. Due to insufficient detail in the grant applications, the value of any post-award monitoring was questionable. The Region's oversight of the grants was not evident. The State's status reports did not provide sufficient detail for the Region to oversee the grants.

Pre-award procedures did not ensure that grant applications contained all required elements. As stated in Office of Water guidance, *Award of Grants and Cooperative Agreements for the Special Projects and Programs Authorized by the Agency's FY 2004 Appropriations Act*, EPA has a responsibility to ensure that all grant applications contain:

- a scope of work that is clearly defined;
- a scope of work that is in conformance with the project description;
- a clearly-stated environmental or public health objective;
- a reasonable chance that the project will achieve its objective(s); and
- costs that are reasonable, necessary and allocable to the project.

These responsibilities have been included in the guidance for annual appropriations since 1994.

The Region's pre-award reviews were administrative checklists noting information contained in the application. For example, for the grant awarded in June 2003, the checklist showed that the Scope of Work was adequate. However, the grant application only showed a listing of villages and total dollar amounts,

without any details such as milestones, cost breakdowns, or scheduled completion dates. In addition, none of the grant applications:

- stated environmental or public health objectives for the various projects to be funded;
- assessed whether there was a reasonable chance that each of the projects funded would achieve its objective(s); and
- assessed whether costs were reasonable.

Prior to the award, neither the Program nor Grants offices in the Region ensured that the grant award addressed these issues. Neither office required the State to provide any information beyond what was in the application. Therefore, the elements generally found in a grant workplan, such as milestone dates and outcomes, were not included in the grant award.

Due to the insufficient detail in the grant applications and award documents, the value of any post-award monitoring was questionable. Five of 15 grant files had some evidence of post-award monitoring, such as determining whether a Single Audit Act report was done, identifying drawdowns, or ensuring that Financial Status Reports were submitted. The remaining 10 grant files had no evidence of post-award monitoring. The official Project Officer files did not contain evaluations or reviews of grantee progress reports or the grant as a whole. Since the grant applications did not contain required elements, post-award monitoring could not address whether the:

- environmental or public health objectives were being addressed;
- project objectives were being achieved; and
- costs were reasonable.

Information the State provided was not sufficient for the Region to oversee the grants. For some grants, the State provided spreadsheets denoting the phases of construction and the percentages of EPA money that had been spent. These reports did not track environmental outcomes or provide sufficient detail on grant progress to show that the grants would reasonably achieve their objectives. Although all grant awards required the submission of annual, year-end reports on administrative costs, such reports were not submitted to the Region for the past 3 years. Regional Office of Water management was not aware that the State had not provided the annual administrative reports.

Region's Perception of Earmark Grants

The Region believed that earmarks were not subject to pre-award review and post-award monitoring. For the Village Safe Water Program, the Region believed that the grants were earmarks, EPA's goal was to provide funds for the State, and the grant policies did not apply to these grants. The Region believed that earmarks

did not include personnel or other resources for oversight of these grants. The Region's approach to grants management differed based on whether grants were considered program or earmark grants. The Region believed that programmatic grant oversight was more rigorous than earmark grant oversight. Earmarks were perceived as pass-through funds although EPA guidance for Congressional earmarks, *Grants Policy Issuance GPI-03-01, Attachment I, Guidance for Congressional Earmarks (Line Items)*, clearly states:

Awards made as a result of earmarks are subject to the applicable assistance regulations, OMB (Office of Management and Budget) cost principles and Agency policies. They must be managed as any other assistance agreement.

The Region's perception that earmarks were not subject to the same monitoring as other grants is not unique. In 1996, the OIG reported that EPA's award and oversight of earmark assistance at six universities differed significantly from similar competitively awarded grants.¹ The report found that EPA accepted unclear applications with unclear scopes of work without requiring additional details from the recipients. EPA also had not assigned sufficient resources to properly oversee the grants.

Assumption that Oversight Was Being Performed

EPA and Regional management assumed that project officers and grant specialists were performing oversight even though there was no documentation to support the assumption. There had been no documentation (e.g., telephone calls, e-mails and on-site visits) in the grant management or project officer files since 1999 of any milestones, progress evaluations, or followup on the grant status, despite EPA grant guidance, *Managing Your Financial Assistance Agreements, Project Officer Responsibilities, Fifth Edition*, which states:

Assistance agreement files should be documented to ensure that the Agency documents the obligations and responsibilities of all parties before, during, and after the grant, and so that a third party can easily follow the sequence of events regarding the project.

Regional Program and Grants Management did not effectively communicate their expectations for management and oversight of the grants. One of the Project Officers did not believe that monitoring was required or that management would support him in addressing issues he identified. In essence, the Region depended on the State to monitor and report on its own program.

¹ *Capping Report on Audits of Congressionally Earmarked Assistance to Selected Universities*, September 30, 1996, Report No. E1FBE4-04-0261-6100313.

EPA and Regional Office of Water managers were unaware of the extent of monitoring that was performed. Regional management and headquarters staff assumed that the Region's grants and program staff were performing monitoring functions. Grant and program staff each believed that the other staff was performing monitoring every year. For example, grants staff believed that the program office was performing on-site monitoring each year. Program office relied on the Grants office for oversight, including reviews of the State's procurement system, and monitoring of grants. As a result, there was limited oversight and monitoring of the grants.

Effects of Lack of Oversight

The Region's lack of oversight impacted the efficiency and effectiveness of the grants. For example:

- The Region was unaware of deficiencies outlined in the Alaska Legislative Auditor's report.
- Drawdowns were not in compliance with U.S. Treasury regulations regarding Federal funds.
- The Region could not determine whether environmental and health objectives were met.

Alaska Legislative Auditor Findings

The lack of oversight resulted in the Region being unaware of deficiencies in the State administration of the program as reported by the Legislative Auditor. The Legislative Auditor report, dated January 9, 2004, questioned the State's spending practices and oversight of construction of water and sewer systems through the Village Safe Water Program. The report described administrative problems with procurement and timekeeping processes and provided the following findings:

- In a review of 24 contracts, the Legislative Auditor found that the contracts awarded by the State may not comply with Federal requirements.
- The Legislative Auditor questioned the compensation paid to three on-site managers as excessive and wasteful.
- The Legislative Auditor questioned whether a project was funded for improvements in a subdivision and not for the treatment of environmental problems or health hazards.
- The Legislative Auditor questioned the costs paid for vehicles, various supplies, and hand tools and items stolen from job sites.

As a result of the findings, the Legislative Auditor recommended that the Village Safe Water Program be transferred from the Alaska Department of Environmental Conservation to the Department of Transportation and Public Facilities. The Legislative Auditor believed that the Village Safe Water Program would benefit

from the Department of Transportation and Public Facilities' support services, economies of scale, training opportunities, career paths, and business discipline. The Legislative Auditor also recommended cost controls over the State's on-site managers and incorporation of normal business safeguards. A copy of the Legislative Auditor report is at:

<http://www.legaudit.state.ak.us/pages/digests/2004/30028dig.htm>.

Some of the problems found by the Legislative Auditor were known to the State due to two independent studies in 2001 and 2002, which had been commissioned by the State but never publicly released. The first study found that:

- Program engineers were not routinely reconciling contract engineers' invoices and paid-to-date amounts with the contracted amount to be paid.
- The equipment purchase policy was not consistently applied among the project engineers. Some did not obtain prior approval before purchasing equipment costing more than \$5,000 and others did obtain prior approval.
- The Village Safe Water Program procedures manual seemed to contradict the EPA and U.S. Department of Agriculture Rural Development grant agreements regarding equipment purchases and prior approvals.

The second study found, in some instances, no evidence of invoice approval by project engineers. In a few instances, the subcontracted engineers were approving their own invoices. In almost all instances, the amounts reported as expenditures to the program exceeded the actual amounts expended on the projects.

The Fiscal Year 2002 Alaska Legislative Auditor's Single Audit Act report pointed out that the State was unable to ensure that it was providing the necessary oversight of EPA and U.S. Department of Agriculture funds passed through to organizations responsible for the financial management of grant funds. The Single Audit Act report recommended that the State contact both Federal granting agencies (EPA and U.S. Department of Agriculture) to obtain monitoring policy guidance. As of the date of this report, the Region has not responded to the Single Audit Act report recommendation. The Region has stated that the recommendation will be addressed in connection with this report's findings.

Compliance with U.S. Treasury Regulations

As of June 30, 2002, the State had a cash balance of \$13,168,777. Under Title 31, Code of Federal Regulations, Sections 205.7 (c)(4) and (d), grantees are limited to cash drawdowns to meet their immediate cash needs. Immediate cash needs are defined as the amount that will be needed for the next 3 days of expenditures. The State has historically drawn funds to meet its cash needs for the construction season, which runs from April to October of each year. The excess cash balance continues for the fiscal year ending June 30, 2003, and is being reviewed by the Legislative Auditor. Adequate monitoring should have resulted in recognition and

resolution of improper drawdown procedures and the excess cash balance. On July 14, 2004, the Region notified the State that funds must not be drawn down in advance of actual immediate cash needs. The Region also rescinded its prior approval of drawing cash for the construction season.

Projects May Not Address Environmental or Health Objectives

Due to the lack of oversight, there was insufficient assurance that health objectives were being met. Grant applications are required to contain clearly stated environmental or public health objectives along with the reasonable expectation of meeting the objectives.

The Legislative Auditor found a project that had been constructed but may not have addressed health issues identified in the justification for receiving funds from the program. On September 3, 1999, the Village Safe Water Program awarded a grant to the Voznesenka Homeowners Association committing \$1,133,333 in Federal funds and \$566,667 in State funds for development of a new water source; installation of a water treatment plant, water mains, and water service to buildings; and training for water managers and operators. The initial justification for the project stated:

The current water supply is not adequate for the community. The present system poses a serious health risk to the villagers who drink untreated water from a small creek which is neither filtered nor disinfected... If people don't boil their water they get sick.

After spending \$1.7 million, safe water was still not available. As of February 2004:

- None of the homes were getting water from any of the seven drilled wells;
- Some homes piped untreated water from streams; and
- There was untreated water in the drinking water tank.

Instead, the facility was used to store water to fight fires. It was the intent of the Village Safe Water Program to provide additional funds to finance a feasibility study for extending the water line in addition to exploring existing and alternative water sources.

Conclusion

The Region must improve its oversight of the grants awarded to the State for the Village Safe Water Program. The Region needs to understand that the management of the State grants is a partnership between the Program and Grants Management Offices. Both offices need to comply with EPA guidance and ensure that all grant applications and awards contain necessary elements. Both offices

must also perform required monitoring. Regional management must communicate expectations for management and oversight to all staff. The Region must devote the resources necessary to promote effective grants management.

Recommendations

We recommend that the Regional Administrator, EPA Region 10:

- 2-1 Manage the grants awarded for the Village Safe Water Program in accordance with EPA regulations and guidance.
- 2-2 Hold managers and staff accountable for managing the grants in accordance with EPA regulations and guidance.

Region 10 Response and OIG Comment

The Region agreed with the findings and recommendations and indicated the following corrective actions have been or will be taken in three phases:

Phase 1. Prior to the audit, the Region:

- Conducted certification training for Project Officers and Supervisors to understand the roles and responsibilities involved in the management of grants.
- Updated post-award monitoring training and offered it quarterly to Project Officers.
- Provided professional development training courses to Grants Specialists.
- Adopted baseline and advanced monitoring programs consistent with the post-award monitoring policy developed by Headquarters.

Phase 2. During the course of the audit, the Region:

- Began updating the position descriptions and performance agreements of Project Officers and the Unit Manager.
- Notified the State that it would be allowed to draw only enough cash to cover its immediate cash needs consistent with U.S. Treasury regulations.

Phase 3. After the audit, the Region will:

- Produce a memorandum of understanding with the State to improve oversight and monitoring of environmental outcomes.
- Commit the Region to manage the grants in accordance with the highest fiduciary standards.
- Review grants pursuant to post-award monitoring policy during 2005.

- Ensure that proper resources are allocated to management and oversight of grants awarded for the Village Safe Water Program.

The OIG recognizes the Region's commitment to managing Village Safe Water Program grants in accordance with all relevant grant regulations and guidance.

Chapter 3

Goals, Objectives, and Measures Not Developed

The Region did not develop goals, objectives, and measures for the grants awarded for the Village Safe Water Program despite \$232 million being awarded to the State. The Regional Strategic Plan did not specifically address goals for the program even though they were outlined in EPA's National Strategic Plan. The Region did not place the needed emphasis on the program after it evolved from a small pilot project to a large, continuing program. The Region thought earmarks were pass-through funds with the goal of providing money to the State. As a result, the Region was unable to determine whether grants met legislative objectives to improve health and sanitation conditions and to provide training, technical assistance, and educational programs. The Region was also unable to determine whether funds were appropriately allocated to protect the Government's investment.

Goals, Objectives, and Measures of Success Needed

EPA guidance requires that all grants:

- Contain goals, objectives, and measures to ensure grant success; and
- Contribute to the EPA mission objectives of protecting human health and the environment.

Although EPA guidance requires the development of goals, objectives, and measures for all assistance agreements, there was no documentation or evidence that the Region followed the guidance. The grant files also did not contain specific information regarding programmatic goals and lacked an examination of whether grant activities would achieve environmental outcomes and be reasonably successful. For example, infrastructure grant applications contained a priority list giving project names such as *Klawock - utility service extension*, but did not discuss how completed projects would accomplish EPA and State of Alaska objectives for clean and safe water and protecting human health. During a June 3, 2004, status meeting, the Region acknowledged that improvements were needed.

The Region also needs to improve its strategic planning process to include the Village Safe Water Program. The Region did not specifically address the goals outlined in the EPA National Strategic Plan in its most recent Regional Strategic Plan. EPA 2003 - 2008 National Strategic Plan Section 2.1.1 addressed the national goal for providing safe drinking water to Alaska Native villages as:

In a related effort, EPA will work with other federal agencies to develop a coordinated approach to improving access to safe drinking water.... EPA will contribute to this work through its support for development of drinking-water facilities in Indian country and Alaskan Native villages, using set-aside funds from the DWSRF [Drinking Water State Revolving Fund] and targeted grants.

While EPA's Strategic Plan addressed Alaska Native villages, the Region's Strategic Plan made no mention of it. With one quarter of village residents not served by safe drinking water, the significance of the issue should have been acknowledged within the Region's Strategic Plan. The Region's Strategic Plan addressed how the State Revolving Loan Fund would be used for water issues. In contrast, the Region's Strategic Plan did not include the Village Safe Water Program, which is funded through the largest annual grant the Region awarded during each of the last 3 years.

Lack of Regional Involvement

The Region began involvement in the Village Safe Water Program by administering a small wastewater construction pilot project in Huslia, Alaska. In 1996, the Village Safe Water Program received annual grant funds as a result of an amendment to the Safe Drinking Water Act. The Region did not adapt policies and procedures to administer the grants as a continuing program although over \$232 million in grant funds was provided over the last 10 years. The Region believed that the grants were pass-through funds with the goal of providing money to the State and were not subject to guidance or policies. As the funding increased from \$15 to \$42 million annually, the Region continued to rely upon the State to perform all program functions (technical and administrative); to evaluate the grants and the program; and to inform the Region if there were any problems. As a result, the Region allowed the State to administer the program without EPA input or involvement.

Grants May Not Meet Legislative Objectives

The lack of goals and measures prevented the Region from determining whether the grants met the objectives of the Safe Drinking Water Act. As a result, the Region cannot quantify the benefits of improved health and sanitation resulting from the projects. In addition, the Region does not have assurance that funds are appropriately allocated between (a) infrastructure; and (b) training, technical assistance, and educational programs relating to the operation and maintenance of sanitation services.

The objectives of the grants as identified in the Safe Drinking Water Act are:

- The development and construction of public water systems and wastewater systems to improve health and sanitation conditions in villages; and
- Training, technical assistance, and educational programs relating to the operation and management of sanitation services in rural and Native villages.

Development and Construction of Systems

Since its inception, the Village Safe Water Program has constructed and placed in operation water and wastewater facilities in rural Alaskan villages. However, there have never been programmatic measures to confirm the success of these efforts. There has been no evaluation of whether:

- facilities are being used for their intended purpose;
- facilities have been abandoned or are not used; and
- assumed public health benefits have been realized.

The following instances highlight the need for measures of success and a determination of whether benefits have been realized:

- In the village of Chefornak, nine wells were drilled in 1994 and 1995 and a pilot “flush tank and haul system” was installed in 2002. Although the Village Safe Water Program has supplied over \$8.3 million in funding since 1992, only 6 of 68 homes are being served because an acceptable water source has not been located.
- In the village of Hooper Bay, a water treatment plant and water storage tank were constructed, but the project was put on hold due to the community’s failure to demonstrate sustainability. Although the Village Safe Water Program has supplied over \$14.9 million in funding since 1992, none of the 185 homes in Hooper Bay are being served.

Operation and Maintenance of Sanitation Services

Without objectives and measures, the Region is unable to evaluate the proper allocation of funding between (a) infrastructure; and (b) training, technical assistance, and educational programs relating to the operation and maintenance of existing facilities. Infrastructure projects have received \$225 million (97 percent) of all grant funds awarded. The issue of infrastructure versus operation and maintenance was addressed during the State of Alaska Rural Sanitation Summit on April 23 and 24, 2002. The purpose of the Summit was for community and agency representatives from throughout Alaska to discuss the current state of water and wastewater conditions in rural Alaska. The Summit concluded:

The current policy of focusing almost all of the funding available for water and wastewater projects on construction of new systems results in shortfalls for funding for training, technical assistance, community planning, upgrades and repairs to existing systems, and operations and maintenance. Specific issues related to funding include the following: Inadequate funding available for upgrade, repair and expansion of old systems on the verge of collapse....

The Region acknowledged that underfunding training, technical assistance, and educational programs relating to operation and maintenance could lead to shortened infrastructure life span. However, the majority of grant funding continues to be allocated to new construction projects rather than supporting existing facilities. Without success measures, the Region is unable to evaluate the proper allocation of funding between infrastructure and maintenance of existing facilities.

Conclusion

The Region did not develop goals, objectives, and measures for the grants awarded to the State for the Village Safe Water Program. The Region is unable to determine whether the grants have met the objectives of the Safe Drinking Water Act. As a result, the Region cannot quantify the benefits to improved health and sanitation. In addition, the Region is not assured that funds are appropriately allocated between (a) infrastructure; and (b) training, technical assistance, and educational programs relating to operation and maintenance.

Recommendations

We recommend that the Regional Administrator, EPA Region 10:

- 3-1 Include goals, objectives, and outcomes within all grants to comply with EPA policies for planning, analysis, and accountability.
- 3-2 Revise the Region 10 Strategic Plan to reflect how the Village Safe Water Program grants will contribute towards achieving clean and safe water.
- 3-3 Develop measures to gauge whether the grants are meeting legislative objectives.

Region 10 Response and OIG Comment

The Region agreed with the findings and recommendations and indicated the following corrective actions have been or will be taken in two phases:

Phase 1. During the course of the audit, the Region:

- Worked with the State of Alaska to improve the grant award process to include objectives and timelines in the workplan for the State's Fiscal Year 2005 grant.

Phase 2. After the audit, the Region will:

- Conduct a review to ensure that the State's fiscal year 2005 grant is meeting legislative objectives.
- Include the Village Safe Water Program in the Region's strategic plan.
- Develop measures in conjunction with Office of Management and Budget Program Assessment of the Village Safe Water Program.
- Produce a memorandum of understanding with the State to improve oversight and monitoring of environmental outcomes.
- Ensure that progress on both drinking water and wastewater issues, as well as environmental and health benefits, can be identified and tracked.

The OIG recognizes the Region's commitment to developing goals, objectives, and measures for the Village Safe Water Program grants.

**Schedule of Grants Awarded to
Alaska Department of Environmental Conservation
Alaska Village Safe Water Program**

Grant Number	Original Award Date	Period of Performance	Total Project Cost	Grant Amount	Grant Payments as of 06/04/2004
Infrastructure					
970094-01	06/15/2001	07/01/2001-06/30/2006	\$44,200,800	\$33,150,600	\$25,435,744
970306-01	08/14/2002	07/01/2002-06/30/2007	\$50,668,300	\$38,000,000	\$18,408,717
970569-01	06/18/2003	07/01/2003-06/30/2008	\$54,331,990	\$40,747,900	\$6,870,826
980241-01	07/15/1998	07/15/1998-06/30/2004	\$27,921,000	\$13,960,500	\$13,429,768
980444-01	06/17/1999	07/01/1999-06/30/2004	\$42,352,050	\$28,229,700	\$25,108,176
980875-01	06/23/2000	07/01/2000-06/30/2005	\$37,132,500	\$27,849,400	\$22,567,198
990383-01	03/15/1995	03/15/1995-09/30/2004	\$16,363,635	\$15,000,000	\$14,455,303
990564-01	03/15/1996	03/15/1996-12/31/2004	\$27,272,727	\$15,000,000	\$14,739,601
990852-01	06/23/1997	07/01/1997-06/30/2004	\$26,084,200	\$13,042,100	\$12,701,099
Subtotal of Infrastructure Grants			\$326,327,202	\$224,980,200	\$153,716,432
Remote Maintenance Worker/Rural Utility Business Advisor (RMW/RUBA)					
990875-01	07/25/1997	07/31/1997-06/30/2003	\$2,564,800	\$1,282,400	\$1,282,400
970156-01	07/25/2001	07/01/2001-06/30/2004	\$1,347,893	\$1,010,920	\$1,010,920
970330-01	08/20/2002	07/01/2002-06/30/2004	\$1,211,000	\$1,815,800	\$1,205,276
970534-01	06/03/2003	07/01/2003-06/30/2005	\$1,416,930	\$1,062,700	\$396,888
970155-01	07/26/2001	07/01/2001-07/30/2003	\$1,211,000	\$907,900	\$907,900
970318-01	08/07/2002	07/01/2002-06/30/2004	\$1,456,100	\$1,092,100	\$1,038,521
Subtotal of RMW/RUBA Grants			\$9,207,723	\$7,171,820	\$5,841,905
GRAND TOTALS			\$335,534,925	\$232,152,020	\$159,558,337

Details on Scope and Methodology

The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of the program to be audited. The understanding of the program was obtained through analysis of the laws, regulations, and guidance pertaining to grants awarded to the State for the Village Safe Water Program and an evaluation of internal controls over the grants. Internal controls include the processes for planning, organizing, directing, and controlling program operations. Internal controls also include the systems for measuring, reporting, and monitoring program performance. Our understanding of the internal controls was gained through the performance of the procedures outlined below. The audit field work was performed from March 10 to May 17, 2004.

Our audit included site visits to EPA Region 10 in Seattle, Washington, and the EPA Alaska Operations Offices in Anchorage and Juneau, Alaska, to perform the following steps:

- Interview Region 10 managers, including the Deputy Regional Administrator; Office of Water Director and Deputy Director; Office of Management Programs Deputy Director; and Grants Management Officer;
- Interview Region 10 Water Division and Grants Management staff;
- Interview Alaska Operations Office staff;
- Interview former Region 10 Water Division and Grants Management staff involved in grants awarded to the State for the Village Safe Water Program;
- Review the official grant files; and
- Review project officers' files.

We interviewed staff from the EPA Headquarters Office of Water in Washington, DC, to determine their role in State grants and the Village Safe Water Program.

We visited the Alaska State Legislature Division of Legislative Audit offices in Juneau and Anchorage to obtain background information concerning audits performed on the State as well as their role in the Single Audit Act audit of the State of Alaska. We interviewed Legislative Audit staff and reviewed their working papers in support of their reports.

Instances of noncompliance with laws, regulations, and guidance, and deficiencies in the Region's internal control system, have been identified and included in the findings in Chapters 2 and 3 of this report. Recommendations have been made to correct the deficiencies.

There have been no previous audits performed of Region 10's oversight of the Village Safe Water Program.

We issued the draft report to the Regional Administrator on July 21, 2004. The Acting Regional Administrator responded on September 1, 2004. An exit conference was held on September 17,

2004. In its response, the Region agreed with the recommendations and indicated that corrective actions have been or will be taken. Synopses of the Region's response follow the Executive Summary and Chapters 2 and 3 of this report. The Region's complete response is included in Appendix B.

Region 10's Response



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 10
1200 Sixth Avenue
Seattle, WA 98101

Reply To
Attn Of: **OW-136**

MEMORANDUM

SUBJECT: Region 10's Response to the Office of Inspector General's Draft Audit Report Number 2003-001486, EPA Oversight for the Alaska Village Safe Water Program Needs Improvement

FROM: Ronald A. Kreizenbeck /s/
Acting Regional Administrator

TO: Michael A. Rickey, Director
Assistance Agreement Audits

We thank the Office of Inspector General (OIG) for the time and effort it has devoted to identifying issues and recommendations associated with the Agency's oversight and management of the Alaskan Village Safe Water Program. We particularly appreciate the initiative your staff has demonstrated in communicating with our office throughout the audit process. Our most recent meeting with them on August 31, 2004, was very helpful in clarifying for both parties the context and intent of several important issues raised in the draft report and assisting us in formulating this response.

Response to Report Recommendations

The draft report provides a number of recommendations toward enhancing the effectiveness of Agency oversight of the Alaska Village Safe Water Program. On balance, we agree with these recommendations and would ask that the report acknowledge the Region's progressive program of activities, policy development and implementation, and other decisions aimed at divulging and addressing issues in the grants management arena during three phases: prior to this audit, following the onset of the audit, and after the audit.

Prior to this audit, the Region undertook a series of initiatives designed to systematically ensure that both EPA Project Officers and Grants Specialists were better equipped to manage/oversee the grants that were awarded from the Region.

- The Grants Administration Unit conducted the enhanced three-day Project Officer certification training in Region 10 in February 2004, and a complementary training for supervisors of Project Officers so that everyone would gain a better understanding of the roles and responsibilities of all individuals involved in the management of grants.
- Post-Award monitoring training was updated this year and offered to Project Officers each quarter.
- The Grants Specialists were provided professional development training courses leading to a Grants Management Certificate (thru MCI). In addition, HQ administered the Grants Specialist Basic Core Knowledge Course here in the Region.
- HQ established a Post Award Monitoring Policy which establishes baseline and advance monitoring of grants. Region 10 then developed its own policy which is being implemented.

After the onset of this audit and in response to its preliminary findings, the Region undertook the following actions to ensure that this grant program will be adequately managed and that its intended environmental results will be achieved. For all actions detailed here and in the next section that have not already been concluded, please note our commitment for their completion not later than June 30, 2005.

- The Office of Water and Watersheds (OWW) and Grants Administration Unit (GAU), have worked with the State of Alaska to improve the grant award process this year. The workplan for the Village Safe Water Program grant issued for FY2005, now includes objectives and time lines.
- OWW is in the process of updating the position descriptions and performance agreements of its Project Officers and Unit Manager to reflect the performance standards as defined in relevant regulations and guidance.
- The Deviation, previously granted to the State of Alaska, which allowed the State to draw sufficient cash to cover the entire construction season, was rescinded and the State was notified that it only is allowed to draw enough cash to cover its immediate cash needs, consistent with Department of Treasury requirements.

Finally, we anticipate implementing the following measures in the near- and longer-term to ensure that funds are safeguarded and that the program is effectively managed and yields desired outcomes:

- OWW will conduct a review to assure that the FY2005 grant is meeting the legislative objective.
- OWW will include the Village Safe Water Program in the Region's strategic plan.
- Measures will be developed in conjunction with the OMB Program Assessment Rating Tool of the Village Safe Water Program.
- An MOU produced under the grant to improve the State and EPA oversight and monitoring of environmental outcomes for the program.
- Region 10 and EPA's long-term Grants Management Plan commits the Agency to managing these grants in accordance with the highest fiduciary standards. Region

10 will review this grant pursuant to the Post Award Monitoring Policy and the Project Officer Manual in 2005.

- OWW intends to establish better linkages between the Drinking Water Compliance Program and the Alaska Village Safe Water Program to ensure that progress on both drinking water and wastewater issues as well as environmental and health benefits can easily be identified and tracked, and appropriate action taken if problems become apparent.
- The Region will work with EPA Headquarters and the State of Alaska to ensure that proper resources are allocated to the management and oversight of this grant.

As evidenced by these activities, the Region is committed to fulfilling the environmental objectives of the Alaska Village Safe Water Program and is responsive to the primary audit findings.

Other Observations & Recommendations

The draft report highlights the need to establish performance measures and environmental outcomes associated with the Alaska Village Safe Water Program grant. As we discussed with your staff, we recommend that the report better reflect the complementary nature of functions that compose the wider Drinking Water Program. Specifically, we believe that the degree to which the objectives of the drinking water component of the Village Safe Water Program are being fulfilled is tracked by our ongoing Drinking Water Compliance Program. Your staff has also suggested that the measures and outcomes related to the municipal wastewater dimension of the Alaska Village Safe Water Program should receive greater treatment. We agree. We are committed to develop more explicit strategic and operational linkages between the drinking water and wastewater components of the Alaska Village Safe Water Programs with complementary functions performed within the broader Drinking Water Program.

We think the report would be greatly improved by the inclusion of additional context regarding the evolution of the Alaska Village Safe Water Program. Specifically, more perspective on the grant's earmark status, and how that perceived status shaped management's expectations for oversight over time, would be very helpful. Notwithstanding our recommendation that the report be augmented with this additional context, Regional management's expectations for oversight of this grant program (including its commitment to develop systems to ensure fulfillment of those expectations) are now at a level commensurate with all relevant grant regulations and guidance.

While we take no special issue with the first two enumerated 'results' reflected in the report's statement on page 3 - "The Region's lack of oversight...resulted in administrative problems, excess cash balances, and potential human health issues.," the reference to health issues was not previously discussed in our joint discussions of preliminary audit findings. We believe that this reference is speculative and should be revised or struck from the report.

As we discussed with your staff on at least two occasions, the Region has not taken a position on either the 2004 Legislative Auditor's report or the Department of Environmental

Conservation's response to that report. While we believe both raise potentially significant issues and may have contributed to prompting this audit, we also believe that it is currently premature for both the Region and this report to render conclusions on what we see as unreconciled issues. Therefore, we would recommend that discussion of the Auditor's report be simplified, cast in the context of a stimulus to the OIG's audit.

We have also discussed with your staff our concerns with the appearance of anecdotal references to specific grants in the report. A balanced and complete reckoning of the report's three anecdotal references (pages 8 and 13) and their broader representativeness is lacking. We believe that their appearance is counterproductive and otherwise detracts from what is our basic agreement with the main thrust of the report's findings and recommendations. We recommend they be struck from the report.

Finally, the report suggests that the distribution of grant funding is faulty, disproportionately favoring new construction projects at the expense of O&M. We know you understand that while the grant program as currently authorized provides for such activities as training and technical assistance that may contribute to better system O&M, it disallows grant funding to be used for implementing an actual O&M program. We understand from our most recent meeting with your staff that the report will be revised to clarify this distinction for readers.

We appreciate the opportunity to respond to this draft report. Should you have any questions concerning our comments and action items, you may contact Marie Jennings at 206-553-1893 or Armina Nolan at 206-553-0530.

Distribution

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