



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Attestation Report

Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi

Report No. 10-4-0003

October 13, 2009



Report Contributors:

Richard Howard
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Abbreviations

A&E	Architectural and Engineering
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FAR	Federal Acquisition Regulation
FSR	Financial Status Report
OIG	Office of Inspector General
SAAP	Special Appropriation Act Project

Cover photo: West Rankin Slip-lining Project (photo provided by engineering firm.)



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) conducts reviews of earmarked grants known as Special Appropriation Act Projects issued to State and tribal governments. The West Rankin Utility Authority, Flowood, Mississippi, was selected for review.

Background

EPA Region 4 awarded Grant No. XP97424901 (grant) on August 24, 2001, to the West Rankin Utility Authority (grantee). The grant provided federal assistance of \$1,932,200 for sewer system evaluation, a water supply feasibility study, photogrammetric mapping, Geographic Information System development, topographic mapping, and sliplining of gravity sewer interceptors. EPA funded 55 percent of the eligible project costs and the grantee funded 45 percent.

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/2010/20091013-10-4-0003.pdf

Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi

What We Found

The grantee did not meet the procurement and financial management requirements of Title 40 Code of Federal Regulations (CFR) Part 31. As a result, we questioned \$1,745,457 in unsupported architectural and engineering (A&E) costs claimed. The grantee will need to repay \$663,321 of grant funds. The grantee also did not comply with the requirements for monitoring operations of grant activities. Due to these noncompliances and internal control weaknesses, the grantee may not have the capability to manage future grant awards.

What We Recommend

We recommend that the EPA Region 4 Regional Administrator:

1. Require the grantee to provide the documentation demonstrating that it performed a cost analysis for the A&E contract at the time of negotiation. If the grantee is unable to do so, EPA should recover the federal share of questioned A&E costs of \$663,321.
2. Require the grantee to develop written policies and procedures on procurement in accordance with 40 CFR 31.36(b), and financial management procedures, including internal control and record keeping, in accordance with 40 CFR 31.20(b).
3. Require the grantee to develop written procedures for monitoring operations of grant activities and comply with 40 CFR 31.40(a).
4. Review policies and procedures developed by the grantee to ensure they meet applicable federal requirements. If the grantee does not fully implement these recommendations, Region 4 should make a high-risk determination, in accordance with 40 CFR 31.12, before making additional awards to the grantee.

The grantee agreed to establish written policies and procedures for procurement, financial management, and monitoring grant activities. The grantee did not concur with the questioned A&E costs, lack of a financial management system, grant monitoring noncompliance, and the designation as a "high risk" grantee. The grantee also disagreed with the audit finding on its record keeping.



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

OFFICE OF
INSPECTOR GENERAL

October 13, 2009

MEMORANDUM

SUBJECT: Costs Claimed Under EPA Grant XP97424901 Awarded to
West Rankin Utility Authority, Flowood, Mississippi
Report No. 10-4-0003

FROM: Robert K. Adachi 
Director of Forensic Audits

TO: A. Stanley Meiburg
Acting Regional Administrator
EPA Region 4

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

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$76,786.

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 you formally complete resolution with the recipient. Your proposed decision is due in 120 days, or on February 10, 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 or your staff has any questions regarding this report, please contact me at (415) 947-4537 or at the above e-mail address, or Leah Nikaidoh at (513) 487-2365 or nikaidoh.leah@epa.gov.

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Introduction

Purpose

The Office of Inspector General of the U.S. Environmental Protection Agency (EPA) reviews Special Appropriation Act Project (SAAP) grants to identify issues warranting further analysis. This includes reviewing the total project costs incurred by selected grant recipients. We reviewed the SAAP grant awarded to the West Rankin Utility Authority, Flowood, Mississippi (grantee).

Background

EPA Region 4 awarded Grant No. XP97424901 (grant) on August 24, 2001. The grant provided federal assistance of \$1,932,200 for sewer system evaluation, water supply feasibility study, photogrammetric mapping, Geographic Information System development, topographic mapping, and sliplining of gravity sewer interceptors. This amount represents the contribution of the U.S. Environmental Protection Agency (EPA) of up to 55 percent of the eligible project costs, and is limited by the amount of the congressional appropriation. The grantee was responsible for matching, at a minimum, 45 percent of the eligible project costs. Per the Financial Status Report (FSR), project costs are \$4,052,510. The grantee was responsible for the remaining project costs of \$2,120,310 (\$4,052,510-\$1,932,200). The grant budget and project period was from August 24, 2001, to December 31, 2006.

Independent Attestation Report

As part of our continued oversight of SAAP grants awarded by EPA, we have examined the costs claimed by the grantee in its FSR covering the period from August 24, 2001, to December 31, 2006. By signing the award documents, the grantee has accepted responsibility for preparing its cost claim to comply with the requirements of 40 CFR Part 31, Office of Management and Budget Circular A-87, EPA policies, and the terms and conditions of Grant No. XP97424901. Our responsibility is to express an opinion on the grantee's FSR based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and the attestation standards established by the American Institute of Certified Public Accountants. We examined, on a test basis, evidence supporting the amount claimed in the FSR and performed such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We conducted our field work between March 30, 2009, and July 30, 2009, and performed the following steps:

- Reviewed the grant agreement and the amendments.
- Toured the facilities constructed under the grant.
- Reviewed the grantee's supporting documents for payment requests.
- Verified deposits of grant cash draws to the bank statements.
- Conducted interviews of personnel.
- Reviewed the grantee's procurement procedures and related documents.
- Determined and verified that the grantee met the required match to the grant.

As part of obtaining reasonable assurance about whether the grantee's FSR is free of material misstatement, we performed tests of its compliance with the requirements of 40 CFR Part 31, Office of Management and Budget Circular A-87, EPA policies, and the terms and conditions of the grant. We also considered the grantee's internal controls over cost reporting in order to determine our audit procedures for the purpose of expressing our opinion on the FSR and not to provide assurance on the internal controls over cost reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control 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 is more than inconsequential will not be prevented or detected.

Our examination disclosed the following noncompliance and material weakness that resulted in the grantee not complying with the financial management requirements specified by Title 40 CFR Part 31.

Noncompliance: The grantee:

- Did not perform a cost analysis required by 40 CFR 31.36(f) for the architectural and engineering (A&E) service contract.
- Did not have its own written procurement procedures required by 40 CFR 31.36 (b) (1), (2), and (3).
- Did not have a financial management system in accordance with 40 CFR 31.20(b).
- Did not monitor grant activities as required by 40 CFR 31.40(a).

Material Internal Control Weakness: The grantee:

- Did not have an adequate procurement system.
- Did not have its own written procurement procedures.
- Did not have a financial management system.

As a result of these issues, we were unable to determine the price reasonableness of A&E costs and have questioned \$1,745,457 of costs claimed under the grant.

In our opinion, the FSR did not meet, in all material aspects, the requirements of 40 CFR Part 31, for the period ended December 31, 2006.



Robert K. Adachi
Director for Forensic Audits
July 30, 2009

Results of Examination

The grantee did not meet the procurement and financial management requirements of 40 CFR Part 31. As a result, we questioned \$1,745,457 in unsupported A&E costs claimed. The grantee also did not comply with the requirements for monitoring operations of grant activities. Due to these noncompliances and internal control weaknesses, the grantee may not have the financial capability to manage future grant awards. The final amended grant award listed total project costs of \$3,513,091. However, the grantee claimed total allowable project costs of \$4,052,510, providing \$539,419 in excess matching funds. The excess matching funds can be used to offset the \$1,745,457 in questioned costs. As a result, the grantee is required to reimburse the EPA \$663,321. Below is a summary of the questioned costs.

Table 1: Summary of Questioned Costs

Cost Element	Questioned Costs
Total Project Costs	\$4,638,278
Less: Ineligible Costs Per State of Mississippi Department of Environmental Quality	(585,768)
Allowable Project Costs	4,052,510
Less: Questioned A&E Costs	(1,745,457)
Total Allowable Project Costs	2,307,053
Federal Share (55%)	1,268,879
Payments Made	1,932,200
Amount to be Repaid	\$(663,321)

Sources: Claimed costs are from the *Financial Status Report*.
Costs questioned were based on OIG's analyses of the supporting documentation provided by the grantee.

Weaknesses in Procurement Procedures

The grantee did not perform a cost analysis or negotiate a fair and reasonable profit as a separate element of the contract price. Title 40 CFR 31.36(f) requires grantees to perform a cost analysis to determine price reasonableness for procuring A&E professional services. It also requires grantees to negotiate a fair and reasonable profit as a separate element of the contract price in all cases where cost analysis is performed. Without a cost analysis, we were unable to determine whether the A&E contract price was fair and reasonable. Therefore, we questioned as unsupported the A&E costs of \$1,745,457 claimed under the grant.

The grantee did not meet the requirements of 40 CFR 31.36(f) because its managers involved in the award process believed that the applicable standard to follow was the State of Mississippi Purchase Law (State Law). The State Law allows the grantee to select an A&E firm based upon qualifications. Federal regulations also allow the selection of an A&E firm based upon qualifications but require the grantee to perform a cost analysis as part of the price negotiation process.

The grantee also did not have its own written procurement procedures. Title 40 CFR 31.36(b) requires grantees to:

- (1) Use their own procurement procedures that reflect applicable State and local laws and regulations, provided that the procurements conform to applicable federal laws and standards.
- (2) Maintain a contract administration system that ensures contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.
- (3) Maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts.

The grantee did not ensure that its A&E contract met all compliance standards because the grantee did not have written procurement procedures that complied with EPA regulations.

Lack of Financial Management System

The grantee did not have a financial management system in accordance with 40 CFR 31.20(b). Title 40 CFR 31.20(b)(2) requires grantees to maintain records that identify the source and application of funds provided for financially-assisted activities. The grantee is a small entity, with only one part-time employee (the Executive Director) and six board members. The grantee contracted with an accounting firm to manage its accounting system requirements. Various firms that the grantee contracted with maintained all other source documents related to the grant. However, the contractors' records were not complete, and the recipient had to contact the Mississippi Department of Environmental Services to obtain information for our review. While it is acceptable to contract various services, the grantee is ultimately responsible for maintaining grant documentation, such as the grant application, the grant award and related amendments, copies of contracts, reimbursement requests with source documentation, payment to contractors, matching fund information, etc. In this case, the grantee only maintained some of these records, such as the board minutes, and relied on others for the information it needed to manage the grant.

Additionally, 40 CFR 31.20(b)(3) requires grantees to maintain effective internal control and accountability for all grant and subgrant cash, real and personal property, and other assets. The grantee does not have any written policies and procedures for financial management, including internal control and record maintenance.

Noncompliance with Monitoring of Grant Activities

The grantee did not monitor grant activities required by 40 CFR 31.40(a). The grantee contracted with an A&E firm to manage the grant. The grantee, however, had no procedures for monitoring operations of grant activities. No grantee personnel oversaw the daily activities of the A&E firm even though the grantee contracted out 100 percent of the project costs to the firm. The A&E firm reported its activities at a monthly board meeting and billed the grantee monthly. The invoices were approved by the Executive Director and the board. Title 40 CFR 31.40(a) requires grantees to manage the day-to-day operations of grant and subgrant supported activities, including monitoring grant activities, to assure compliance with applicable federal requirements

and that performance goals are being achieved. Without an adequate grants management process, the grantee risks potential fraud, waste, and abuse of its grant funds.

High Risk

As noted, the grantee did not maintain an acceptable financial management system, had weak procurement procedures, and did not monitor its grant activities. When grantees do not have systems that meet financial management standards, EPA can identify them as “high-risk.” According to 40 CFR 31.12, a grantee may be considered “high-risk” if an awarding agency determines that the grantee:

- Has a history of unsatisfactory performance.
- Is not financially stable.
- Has a management system that does not meet management standards.
- Has not conformed to terms and conditions of previous awards.
- Is otherwise not responsible.

The grantee met two of the five criteria for high risk. The grantee’s financial management system was not adequate and the grantee did not meet grant award terms and conditions because it did not comply with federal regulations or monitor its grant.

Recommendations

We recommend that the Regional Administrator, EPA Region 4:

1. Require the grantee to provide the documentation demonstrating that it performed a cost analysis for the A&E contract at the time of negotiation. If the grantee is unable to do so, EPA should recover the federal share of questioned A&E costs of \$663,321.
2. Require the grantee to develop written policies and procedures for procurement in accordance with 40 CFR 31.36(b), and for financial management, including internal control and record keeping, in accordance with 40 CFR 31.20(b).
3. Require the grantee to develop written procedures for monitoring operations of grant activities and comply with 40 CFR 31.40(a).
4. Review policies and procedures developed by the grantee to ensure they meet applicable federal requirements. If the grantee does not fully implement these recommendations, Region 4 should make a high-risk determination, in accordance with 40 CFR 31.12, before making additional awards to the grantee.

Grantee Comments and OIG Analysis

We held an exit conference with representatives from EPA Region 4 and the grantee on August 17, 2009, to obtain comments regarding the factual accuracy of the discussion draft. The

grantee provided a written response to the OIG on August 31, 2009, to verify their exit conference comments. Appendix A provides the full text of the grantee's comments.

The grantee concurred with the recommendations in the discussion draft for establishing written policies and procedures for procurement, financial management, and monitoring grant activities. The grantee stated that it has completed a comprehensive procurement manual, which also covers financial management and monitoring grant activities. The grantee will provide the procurement manual in final draft form to EPA OIG and to the Region requesting comment. The grantee, however, did not concur with the questioned A&E costs, the lack of a financial management system, grant monitoring noncompliance, and the designation as a "high risk" grantee. The grantee also disagreed with the audit finding on its record keeping.

The grantee also emphasized that it executed the grant activities in accordance with the contracts, and as approved by Region 4. The grantee also stated that all monies, both federal and the grantee's local match, were properly expended, all monies are accounted for, and all work was received. As part of our audit, we did not find any indications of fraud, waste, or abuse of federal funds.

Weaknesses in Procurement Procedures: A&E Contract Procured without Cost Analysis

The grantee stated that it did not have a written cost or price analysis for the A&E service. However, the grantee indicated that it negotiated a fair and reasonable price for the services it received, and its contract price was fair and reasonable. The grantee prepared documentation to support its after-the-fact analysis to demonstrate the reasonableness of the costs.

The grantee's assertion that it did negotiate a fair and reasonable price for the services it received is unsupported. The cost analysis is to be performed at the time of negotiation. Our position that the A&E costs of \$1,745,457 are unsupported remains unchanged. Title 40 CFR 31.36(f)(3) requires that the costs included in negotiated prices be consistent with the federal cost principles outlined in 40 CFR 31.22. The cost principle applicable to for-profit organizations, such as the grantee's A&E firm, is the Federal Acquisition Regulation (FAR), which provides detailed guidance on cost or price analysis. According to FAR 15.404-1(c), cost analysis is the review and evaluation of the separate cost elements and profit in the offeror's proposal (including cost or pricing data). FAR 15.404-1(c)(2)(iii) provides cost analysis techniques and procedures to ensure a fair and reasonable price. These techniques and procedures include the comparison of costs proposed by the offeror for individual cost elements with:

- Actual costs previously incurred by the same offeror,
- Previous cost estimates from the offeror or from other offerors for the same or similar items,
- Other cost estimates received in response to the government's request,
- Independent government cost estimates by technical personnel, and
- Forecasts of planned expenditures.

Absence of Written Policies and Procedures for Procurement, Financial Management System, and Monitoring Grant Activities

In response to the audit, the grantee has developed a procurement manual that is under review by the grantee's board for comment. The board will formally adopt it in September 2009 subject to any comments provided by EPA OIG and Region 4. We concur with the grantee's actions to date to address this finding. The grantee should finalize its procurement manual and submit to Region 4 as part of the audit resolution process.

Lack of Financial Management System

The grantee stated that it believed the financial management system in place at the accounting firm was sufficient to meet federal requirements. However, based upon audit results, the grantee has developed and is adopting a formal financial management system. We concur with the grantee's actions to adopt a formal financial management system. As part of audit resolution, the grantee should provide written policies and related documents for Region 4's review.

The grantee asserted that it maintained all of its records at the City of Flowood, Mississippi, including the final payment request and board meeting minutes. We agree that the grantee maintained board meeting minutes, but do not agree with the grantee's remaining assertions.

During field work, project records and procurement files were delivered to the grantee's offices from the A&E firm. At no time during our field work, did the grantee indicate that it has complete official files maintained at the City of Flowood offices. The documents of the request for reimbursement were not provided by the grantee but by the A&E and the accounting firms. For the final request for reimbursement, however, both firms had improper supporting documents for this payment. We requested proper supporting documents, and the grantee contacted the Mississippi Department of Environmental Quality to get the proper documents. Therefore, our position on this issue remains unchanged.

Noncompliance with Monitoring of Grant Activities

The grantee asserted that although it had no written procedures for monitoring grant activities, an appropriate representative of the grantee oversaw the activities of the A&E firm. Our position remains unchanged. The grantee did not provide any additional supporting evidence to support its claim.

High Risk

The grantee asserted that there was insufficient reason to classify itself as "high risk." However, our position remains unchanged. If the grantee completes its proposed actions to develop policies and procedures to formally institute a financial management system, including procurement procedures, these actions may mitigate the need for a high-risk

determination. Region 4 will make the final determination after reviewing the grantee's action taken per the audit recommendations.

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	Require the grantee to provide the documentation demonstrating that it performed a cost analysis for the A&E contract at the time of negotiation. If the grantee is unable to do so, EPA should recover the federal share of questioned A&E costs of \$663,321.	U	Regional Administrator, Region 4		\$663.3	
2	6	Require the grantee to develop written policies and procedures on procurement procedures in accordance with 40 CFR 31.36(b), and financial management procedures, including internal control and record keeping, in accordance with 40 CFR 31.20(b).	O	Regional Administrator, Region 4			
3	6	Require the grantee to develop written procedures for monitoring operations of grant activities and comply with 40 CFR 31.40(a).	O	Regional Administrator, Region 4			
4	6	Review policies and procedures developed by the grantee to ensure they meet applicable federal requirements. If the grantee does not fully implement these recommendations, Region 4 should make a high-risk determination, in accordance with 40 CFR 31.12, before making additional awards to the grantee.	U	Regional Administrator, Region 4			

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



Mayor Gary Rhoads
Chairman

Mayor Brad Rogers
Vice Chairman

Garry Miller
Executive Director
Secretary/Treasurer

WEST RANKIN UTILITY

Mayor Tim Coulter
Mr. Joe F. Donald, Jr.
Mr. Benny French
Dirk Vanderleest
Mayor Mark Scarborough

August 31, 2009

**Delivery by Email
and by U.S. mail**

Mr. Robert Adachi
Director of Forensic Audits
US EPA - Office of the Inspector General
75 Hawthorne St. 7th Floor
MC: IGA-1
San Francisco, CA 94105

Re: West Rankin Utility Authority Response to Draft Attestation Report entitled *Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi Project No. 2009-843 July 30, 2009*

Mr. Adachi:

West Rankin Utility Authority (hereinafter "Grantee") provides this written response to the Draft Attestation Report entitled *Costs Claimed Under EPA Grant XP97424901 Awarded to West Rankin Utility Authority, Flowood, Mississippi Project No. 2009-843 July 30, 2009* (hereinafter the "Draft Report"). We request that these comments be included in the final report you prepare for delivery to EPA Region IV.

Grantee's General Statement in Response to EPA OIG Findings:

At the time of the 2001 Grant, the Grantee was a newly-formed public entity, without staff of its own. To ensure compliance with EPA Guidelines, representatives of the Grantee were sent to the Region IV seminars which train grantees and grant administrators on compliance with Special Appropriations Grants; Grantee hired an accounting firm well-known for its experience in Government Accounting to account for the grant expenditures; and Grantee made certain all contracts, changes in work scope and pay applications were sent to EPA Region IV for review in advance of execution. Despite these efforts, the audit performed by EPA OIG (the "Audit") identified deficiencies in the Grantee's procurement, financial management and grant monitoring systems. While EPA OIG identified areas where Grantee's systems could be improved upon, Grantee did properly manage the Grant monies, as evidenced by EPA OIG's finding that all monies spent under the Grant have been properly accounted for; did negotiate a fair and reasonable price for the A&E Services, as evidenced by the cost and price analysis performed by Grantee in preparation for this response; and did properly observe and monitor the activities of its contractors performing work pursuant to the Grant, as evidenced by the many meetings held between the contractors and Grantee. In addition, Grantee has prepared and will adopt written policies and procedures as recommended in the *Draft Report*. Therefore, based upon the above, and Grantee's comments below, Grantee should not be required to refund federal monies received under the Grant, nor should it be designated high-risk. These actions are not warranted by the findings.

SPECIFIC FINDINGS:

EPA OIG Statement: *The Grantee did not perform a cost analysis or negotiate a fair and reasonable profit as a separate element of the contract price.*

Grantee's Comment:

Grantee was in compliance fully with all State regulations governing procurement of public contracts. In order to make certain that the Grant was properly administered under the federal regulations, Grantee sent its representative, along with a representative of the engineering firm performing work under the Grant to the Region IV seminar which trains grantees and grant administrators on compliance with Special Appropriations Grants. Region IV approved each disbursement and Grantee, its engineers and management believed that all guidelines were being observed. Despite these efforts, the audit performed by EPA OIG (the "Audit") identified deficiencies in the Grantee's procurement system, in that a written cost and/or price analysis was not performed in accordance with 40 CFR 31.36(f) in connection with the procurement of the A&E Services.

While Grantee did not have a written cost analysis or price analysis for the A&E services, Grantee did negotiate a fair and reasonable price for the services it received. The bid selection committee for the A&E services had over 60 years, collectively, of experience in the procurement of public works contracts, including experience with the same type of A&E and construction work performed under this Grant. The bid selection committee had available to it all information necessary to make an informed decision, including current rates for similar services for its own and for other public bodies.

The proof of the appropriateness of the selection made by Grantee and of the reasonableness of cost and price is shown by the cost and price analysis performed in preparation for this response to the *Draft Report*. Grantee obtained from the A&E contractors and each of their sub-contractors detailed information necessary to perform a cost and price analysis of the work, and subsequently performed the cost and price analysis. The result of the analysis demonstrates that the amounts paid for the services received were fair and reasonable, and that had the Grantee followed 40 CFR 31.36(f) at the time of procurement, the decision to choose the A&E firm and the price paid would not have been different.

EPA OIG Statement: *The Grantee also did not have its own written procurement procedures.*

Grantee's Comment:

Grantee followed the written State regulations on procurement, which are comprehensive. Following the Audit, Grantee began preparation of and has completed a comprehensive procurement manual, which also covers financial management and contractor supervision. This Procurement Manual is being provided in final draft form to EPA OIG and to Region IV requesting comment. The Procurement Manual has been delivered to Grantee's Board for comment, and will be formally adopted by the Board in September, subject to any comments provided by EPA OIG and Region IV.

EPA OIG Statement: *The Grantee did not have a financial management system in accordance with 40 CFR 31.20(b).*

Grantee's Comment:

As stated earlier, Grantee was a newly-formed entity, without staff of its own. Grantee employed the services of an experienced government accounting firm. Grantee believes that the financial management system in place at the accounting firm was sufficient to meet this requirement. However, as EPA OIG found this system to be insufficient, Grantee has developed and is adopting a formal Financial Management System.

In this same section of the *Draft Report*, EPA OIG states “[V]arious firms that the Grantee contracted with maintained all other source documents related to the grant.” This statement is factually incorrect. All records of Grantee, including all grant documentation, such as the grant application, the grant award and related amendments, copies of contracts, reimbursement requests with source documentation, payment to contractors, matching fund information, were maintained by Grantee at the Grantee's offices in Flowood, Mississippi, offices which are provided at no cost to Grantee by one of its Members, City of Flowood, Mississippi. EPA OIG noted that one document, Application for Payment Number 17, could not be found at Grantee's location. This is incorrect. This Application for Payment was in Grantee's files, but Grantee was required to contact Mississippi Department of Environmental Quality to receive the final version of this document. MDEQ had not returned a corrected version of this document to Grantee following its review.

In addition. EPA OIG in follow-up correspondence to Grantee has stated that minutes of the Grantee were provided by the attorneys for Grantee and that financial records were provided by

the accountants. The field auditors for EPA OIG misunderstood where these documents were maintained. With respect to the minutes, all original minutes are maintained by Grantee in Flowood. However, as a courtesy to EPA OIG, the attorneys representing Grantee scanned in the minutes into electronic form and delivered these to EPA OIG, at their request, in advance of their arrival for the audit. Similarly, at the request of EPA OIG, certain financial records were provided in advance by the accountants, although the originals of those same records were maintained by Grantee at Grantee's location. In addition, EPA OIG states that project reports, procurement documents and the SF271 were maintained at the engineering firm. While it is true that the engineering firm had copies of these documents, all of these documents were also maintained by Grantee in the Flowood offices. Finally, Grantee maintained all Grant documentation at its Flowood office, which EPA OIG chose to obtain from the EPA Project Officer.

EPA OIG Statement: *The Grantee did not monitor grant activities required by 40 CFR 31.40(a).*

Grantee's Comment:

While the Grantee had no written procedures for monitoring grant activities, the activities of the A&E firm were overseen by a representative of the Grantee as was appropriate for the work being performed. The A&E firm reported its activities at a monthly board meeting and billed the Grantee monthly. The invoices were approved by a part-time Executive Director and the Board. Day-to-day operations of grant and sub-grant supported activities, including monitoring grant activities to assure compliance with applicable federal requirements and that performance goals are being achieved, would have been unnecessary and impractical for the type of work being performed. When field activities were underway, Grantee monitored those activities as was deemed appropriate for the work being performed. For example, while aerial photographs were being taken for mapping purposes, Grantee was in contact with the engineers regarding the performance of the work. When sewer camera services were underway, Grantee was in contact with not only the engineers, but also the contractor, with respect to the performance of and findings resulting from the work.

EPA OIG Statement: *The Grantee met two of the five criteria for high risk. The Grantee's financial management system was not adequate and the Grantee did not meet grant award terms and conditions because it did not comply with federal regulations or monitor its grant.*

Grantee's Comment:

Grantee does not have a history of unsatisfactory performance; is financially stable; is adopting a management system that meets management standards; has never had a previous award and therefore has not failed to conform to terms and conditions of previous awards; and is otherwise responsible. Therefore, there is insufficient reason to classify Grantee as "high risk."

Grantee's Conclusion:

All monies under the Grant are accounted for and all work under the Grant has been properly delivered. While EPA OIG takes issue with the method of Grantee's procurement system, financial management and contract monitoring systems, it is incorrect to conclude that Grantee had no systems in place or that the Grantee's systems were inadequate. Although Grantee

acknowledges that the Audit identified several areas for improvement, Grantee asserts that the system in place did insure proper administration of the Grant monies and proper monitoring of contract activities. After preparing cost analyses and price reviews, Grantee has determined that the amounts paid for the A&E services received were fair and reasonable, and that had the Grantee followed 40 CFR 31.36(f) at the time of procurement, the decision to choose the A&E firm and the price paid would not have been different.

This was a Special Appropriations Grant. Congress stated its intent that this work be performed. The work was performed, in accordance with the contracts, and as approved by EPA Region IV. All monies, both federal and Grantee's local match, were properly expended, all monies are accounted for and all work was received. While there may be technical flaws in the method by which Grantee procured the services, there was no harm resulting, and no reimbursement of Grant monies should be recommended nor should Grantee be designated high risk.

Sincerely,

West Rankin Utility Authority

Gary L. Rhoads, President /s/

cc: Leah Nikaidoh, National Single Audit Coordinator

Appendix B

Distribution

Acting Regional Administrator, Region 4
Director, Office of Wastewater Management, Office of Water
Director, Office of Wastewater Management - Municipal Support Division, Office of Water
Director, Office of Grants and Debarment
Director, Grants and Interagency Agreements Management Division
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Region 4 Audit Follow-up Coordinator
Region 4 Public Affairs Office
Region 4 Special Appropriation Act Project Coordinator
Chairman, West Rankin Utility Authority, Flowood, Mississippi
Acting Inspector General