



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**ENVIRONMENTAL PROTECTION
AGENCY GRANTS,
DEPARTMENT OF PUBLIC WORKS,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 00-I-696
SEPTEMBER 2000**

EXECUTIVE SUMMARY

**Environmental Protection Agency Grants,
Department of Public Works,
Government of the Virgin Islands
Report No. 00-I-696
September 2000**

BACKGROUND

The Virgin Islands Department of Public Works responsibilities include (1) repairing, maintaining, and operating the sewage disposal system and (2) enforcing and administering all regulations and laws related to the use of the sewage disposal system. During the period of September 1984 through September 1999, the U.S. Environmental Protection Agency (EPA) awarded 10 grants totaling about \$27.6 million to Public Works for the construction and rehabilitation of wastewater treatment plants; the rehabilitation of pump stations and sewer lines; the purchase and installation of emergency generators at pump stations; and the execution of used oil management, solid waste management, and pollution prevention programs. Six of the grants, totaling \$22.2 million, were administered by Public Works, and four of the grants, totaling \$5.4 million, were administered by the U.S. Army Corps of Engineers through a memorandum of agreement between the Corps and the Government of the Virgin Islands. Based on grant data provided by Public Works and the Corps, we determined that as of September 30, 1999, EPA had provided \$10.6 million for reimbursement against the 10 grants, leaving available grant balances totaling about \$17 million.

OBJECTIVE

The objective of the audit was to determine whether (1) Public Works complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to the grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the financial management system; (4) and drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

RESULTS IN BRIEF

Public Works needs to improve its administration of Federal grants awarded by EPA. The Public Works Environmental Engineering Division needs a Director to provide overall management of the program grants, staff who are knowledgeable of the specific purposes of the grants, procedures to document the time charged to the grants, better coordination with the Public Works Grants Management Unit to timely complete financial status reports and requests for reimbursement, and improved coordination with the Corps to obtain supporting

documents for costs incurred on Corps administered projects. Furthermore, as of September 30, 1999, Public Works had not used grant funds of about \$16.6 million that were available for the construction of two wastewater treatment plants and funds of \$120,000 that were available for a used oil management program, and it had not requested reimbursement for administrative expenditures totaling \$63,819. We also determined that of the \$10.6 million that had been reimbursed by EPA, costs of \$9.3 million were eligible for reimbursement and costs of \$1.3 million billed by the Corps were unsupported. In addition, we noted that the Corps may have incurred expenditures of \$715,914 in excess of amounts reimbursed by EPA under two of the grant projects.

RECOMMENDATIONS

We made 12 recommendations to the Governor of the Virgin Islands to improve grant program administration.

AUDITEE COMMENTS AND OIG EVALUATION

Based on the response from the Governor of the Virgin Islands, we considered two recommendations resolved and implemented, four recommendations resolved but not implemented, and six recommendations unresolved.



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUDIT REPORT

Honorable Charles W. Turnbull
Governor of the U.S. Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on Environmental Protection Agency Grants, Department of Public Works, Government of the Virgin Islands

Dear Governor Turnbull:

This report presents the results of our review of Environmental Protection Agency (EPA) grants for construction of wastewater treatment facilities and related activities administered by the Department of Public Works, Government of the Virgin Islands. The objective of the audit was to determine whether (1) Public Works complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to the grant agreement provisions; (3) funds received through electronic transfers were appropriately deposited to and accounted for in the financial management system; (4) and drawdowns were made in accordance with the Cash Management Improvement Act of 1990.

BACKGROUND

The Virgin Islands Code (3 V.I.C. § 138) states that the Department of Public Works is responsible for, among other duties, (1) repairing, maintaining, and operating the sewage disposal system and (2) enforcing and administering all regulations and laws related to the use of the sewage disposal system. These duties were performed primarily by the Department of Public Works Environmental Engineering Division.

The Environmental Engineering Division was authorized about \$457,000 from the Government's General Fund for 12 positions for fiscal year 1998 and about \$208,000 for 7 positions for fiscal year 1999. As of September 30, 1999, four positions were filled (two environmental engineers, a waste oil coordinator, and a project manager), three positions were vacant (a director, an assistant director, and a solid waste coordinator), and five previously authorized positions had been deleted from the budget (an assistant director, two environmental planners, a waste oil coordinator, and a laboratory analyst).

In March 1984, the United States (through EPA) filed a complaint in the U.S. District Court of the Virgin Islands against the Government of the Virgin Islands for violating certain provisions of the Clean Water Act (33 U.S.C. § 1251) at (then) eight wastewater treatment plants. In September 1985, the United States and the Government of the Virgin Islands

reached an agreement that required the Government of the Virgin Islands to (1) implement improvements in the daily operation of its wastewater treatment plants, (2) construct the Mangrove Lagoon wastewater treatment plant, (3) address the violations in the United States complaint, (4) pay a civil penalty of \$375,000, and (5) pay \$2 million into a corrective action trust fund. In March 1991, the United States filed a motion to hold the Government of the Virgin Islands in civil contempt, primarily for not constructing the Mangrove Lagoon wastewater treatment plant. In December 1994, the United States and the Government of the Virgin Islands entered into an amended consent decree to come into and remain in compliance with applicable Federal and territorial laws governing wastewater discharges for 11 existing wastewater treatment plants and 2 plants that were required to be constructed as a result of the amended consent decree. As of September 30, 1999, the Mangrove Lagoon wastewater treatment plant had not been constructed, and the Cruz Bay wastewater treatment plant was expected to be completed in June 2000.

During the period of September 1984 through September 1999, EPA awarded 10 grants totaling about \$27.6 million (3 of the 10 grants had local matching requirements totaling about \$355,000) to Public Works for the construction and rehabilitation of wastewater treatment plants; the rehabilitation of pump stations and sewer lines; the purchase and installation of emergency generators at pump stations; and the execution of used oil management, solid waste management, and pollution prevention programs. Six of the grants, totaling \$22.2 million, were administered by Public Works, and four of the grants, totaling \$5.4 million, were administered by the U.S. Army Corps of Engineers through a memorandum of agreement between the Corps and the Government of the Virgin Islands. Based on grant data provided by Public Works and the Corps, we determined that as of September 30, 1999, EPA had provided \$10.6 million for reimbursement against the 10 grants, leaving available grant balances totaling about \$17 million (see Appendix 2). About \$16.6 million of the \$17 million remaining balance was available for the construction of two wastewater treatment plants (Mangrove Lagoon, St. Thomas, and Cruz Bay, St. John). The remaining \$400,000 was available to cover additional grant charges that may be incurred, but requests for reimbursement had not been submitted by Public Works as of March 31, 2000.

SCOPE OF AUDIT

The scope of the audit included a review of the award agreements for the 10 EPA grants; documentation in support of expenditures claimed against the grants; and documentation in support of grant funds approved for reimbursement during fiscal years 1997, 1998, and 1999 and other periods as appropriate. The audit was conducted from June through December 1999 at the Departments of Public Works, Property and Procurement, and Finance.

The scope of our review was limited because Public Works and the Corps received U.S. Treasury checks rather than electronic transfers of Federal funds from EPA to satisfy requests for reimbursement. We did not perform audit tests to determine whether grant drawdowns were made in accordance with the Cash Management Improvement Act of 1990 because Public Works received EPA grant funds through checks rather than electronic transfers on a reimbursable rather than an advance basis. Therefore, the provisions of the Act were not applicable to the EPA grants. Regarding the four grants administered by the Corps,

the scope of our review was also limited because Public Works did not have grant award documents, supporting invoices for expenditures claimed against the grants, or financial status reports, and the Corps provided us only grant award documents and documentation to support some of the construction-related expenditures requested for reimbursement. As a result, we were not able to review documentation to support expenditures requested for reimbursement for administration, architectural engineering, project inspection, and other miscellaneous costs. Additionally, documentation for construction-related costs was not fully available for our review. Further, we were not able to substantiate that financial status reports were filed with EPA for any of the four grants.

Our audit was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

We included an evaluation of internal controls to the extent we considered necessary to accomplish the audit objective. The internal control weaknesses identified were related to the establishment of a grants management system within the Department of Public Works to monitor the financial and compliance aspects of the EPA grants. The control weaknesses are discussed in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

During the past 5 years, neither the General Accounting Office nor the Office of Inspector General has issued any audit reports on EPA grants awarded to the Government of the Virgin Islands.

RESULTS OF AUDIT

The Department of Public Works was not effective in administering Federal grants awarded by EPA. Specifically, Public Works did not (1) effectively use funds for grants that it administered, (2) maintain grant award notification documents and validate drawdown requests for grants that the Corps administered, (3) file financial status reports and requests for reimbursement in a timely manner, (4) establish procedures for processing grant drawdowns through electronic fund transfers, (5) maintain property control records, and (6) provide sufficient oversight of costs incurred by the Corps. The Code of Federal Regulations (40 CFR 31) establishes uniform administrative rules for Federal grants awarded by EPA, and U.S. Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes the requirements for the allowability of grant costs. In addition, the memorandum of agreement between the Government of the Virgin Islands and the Corps contains provisions for the construction of wastewater treatment projects funded by EPA. The EPA grants were not administered effectively because Public Works Environmental Engineering Division did not have a Director to provide oversight of and direction for grants management, staff were not cognizant of the specific purposes of available Federal grant funds, Public Works did not have procedures to document the time worked by staff on Federal grant projects for reimbursement purposes, and staff did not coordinate with the Public Works Grants Management Unit to timely complete financial status reports and requests for reimbursement.

and to maintain property records. Further, the Corps did not provide Public Works with supporting documents for costs incurred on projects it administered because those documents were provided directly to EPA or maintained by the Corps at its off-island offices. As a result, as of September 30, 1999, Public Works had not used grant funds of about \$16.6 million that were available for the construction of two wastewater treatment plants and funds of \$120,000 that were available for a used oil management program, and it had not requested reimbursement for administrative expenditures totaling \$63,819 (see Appendix 1). We also determined that the Corps may have incurred excess expenditures of \$715,914 under two of the grant projects. Further, Public Works requested additional funds of \$130,000 from EPA to correct deficiencies in work administered by the Corps. Of the \$10.6 million that had been reimbursed by EPA as of September 30, 1999, we determined that \$5.2 million represented eligible costs for projects administered by Public Works and \$4.1 million represented eligible costs for projects administered by the Corps. Also, we classified costs of about \$1.3 million for projects administered by the Corps as unsupported (see Appendix 1).

Grants Administered by Public Works

Public Works administered six grants totaling \$22.2 million for which funds had not been used effectively. That is, over a period of 15 years, Public Works had not been able to complete construction of two wastewater treatment plants, while during this same period, estimated construction costs for one of the plants had tripled. As of September 30, 1999, \$5.2 million had been used by Public Works for eligible costs, and \$17 million was still available for expenditure on environmental projects that were identified by Public Works and EPA as critically needed.

Mangrove Lagoon Wastewater Treatment Plant. During the period of September 1984 to September 1999, Public Works received a grant award and three amendments totaling \$13.8 million (\$13.6 million Federal share and \$0.2 million local share) for the design and construction of a wastewater treatment plant at the Mangrove Lagoon/Turpentine Run service area on St. Thomas. The approved budget for project costs totaled \$13.8 million for administration, architectural engineering, project inspection, construction, project management, and contingencies. During the period of February 1985 to December 1987 Public Works submitted eight requests for reimbursement totaling \$1 million of architectural engineering fees for the design of the wastewater treatment plant. Although the architectural firm that prepared the initial design was paid the \$1 million, EPA did not accept the design plans and did not approve additional funds for the design portion of the project. During the period of January 1988 to April 1996, no progress was made on the design of the wastewater treatment plant because the Government did not allocate any funds to pay for additional design fees. In April 1996, Public Works contracted with another architectural engineering firm for the redesign of the wastewater treatment plant at a cost of \$1.2 million to be paid from local funds. As of September 30, 1999, the design of the wastewater treatment plant was completed and approved by EPA, but construction had not commenced. Accordingly, of the \$13.8 million approved for this project, only \$1 million had been expended, leaving an available balance of \$12.8 million (\$12.6 million Federal share and \$0.2 million local share). Of the \$12.8 million balance, \$319,552 was budgeted for administrative services to be performed by Public Works employees. In addition, the estimated costs to construct the wastewater treatment plant increased from the initial grant amount of \$8.9 million in

September 1984 to about \$30 million as of September 30, 1999. The additional \$16 million will be provided from bonds issued by the Virgin Islands Public Finance Authority in May 1998. According to the amended grant award, construction of the wastewater treatment plant is required to be completed by March 2002. Based on our review of grant files at Public Works, we did not find any financial status reports or progress reports for this grant.

Cruz Bay Wastewater Treatment Plant. During the period of September 1989 to September 1996, Public Works received a grant award and four amendments totaling \$7.9 million for the construction of a wastewater treatment plant at Cruz Bay, St. John. The approved budget for project costs totaled \$8.1 million for administration, architectural engineering, project inspection, construction, project management, and contingencies. Because the approved budget totaled about \$200,000 more than the grant award, the excess costs were to be provided from local funds. As of September 30, 1999, \$3.8 million had been expended for eligible costs related to architectural engineering, project inspection, and construction and project management costs, and the wastewater treatment plant was considered to be 49 percent complete. Therefore, \$4.1 million was available for expenditure, of which \$129,872 was for administrative services to be performed by Public Works employees. The notification of grant award, as amended, required the project to be completed by June 25, 1998 based on the amended consent decree. The construction contract indicated a completion date of August 15, 1999, but actual completion was not anticipated until about June 2000, which was 2 years beyond the date established in the consent decree. Public Works did not request an extension of the grant award from EPA, and the construction contractor did not request an extension of its contract through March 2000. Based on our review of grant files at Public Works, we did not find any financial status reports or progress reports for this grant.

Crown Bay Sewer Extension. On September 30, 1994, EPA awarded a grant totaling \$423,851 for the construction of the Crown Bay, St. Thomas, sewer extension project. The approved budget for project costs totaled \$423,851 for administration, architectural engineering, project inspection, construction, project management, and contingencies. The grant period was from October 1, 1994 to June 15, 1997. The project was completed in May 1998, and Public Works claimed construction costs of \$255,424 through four requests for reimbursement during the period of March 1997 to May 1998. However, invoices supporting the construction costs totaled only \$248,881, for a difference of \$6,543. Our analysis of the requests for reimbursement showed that although the invoice for the fourth payment request, dated May 11, 1998, was changed from \$65,425 to \$58,882 (a difference of \$6,543), the request for reimbursement was not changed. The reimbursement amount of \$65,425 was entered into the Government's financial management system in September 1998, and the invoice amount of \$58,882 was entered in July 1998. Therefore, we concluded that Public Works requested \$6,543 in excess of expenditures incurred and did not return the excess funds to EPA. In September 1999, the \$6,543 was entered into the financial management system and charged to grants administration, but we did not find any documentation at Public Works to support this amount. Of the \$168,427 (\$423,851 less \$235,424) not claimed against the grant funds, we identified \$63,819 that may represent project-related personnel costs for administration, architectural engineering, and project inspection services. However, Public Works did not have a methodology to accumulate, account for, and allocate employees' time to different projects. Although the sewer extension project was completed in May 1998, we did not find, based on our review of grant

files at Public Works, any financial status reports, including a final financial status report, or progress reports for this grant.

Pollution Prevention Program. During the period of September 1994 to May 1999, EPA awarded a grant and six amendments totaling \$27,500 for a pollution prevention program at Public Works. The amendments extended the original project completion date from September 30, 1995 to May 30, 1999 and waived the local match of \$5,000 that was included in the original grant award. The approved budget for project costs totaled \$27,500 for contractual and other costs. During the period of August 1996 to September 1998, Public Works submitted five invoices totaling \$23,329 to the Department of Finance for payment. However, a request for reimbursement totaling \$23,329 was not prepared until April 1999, and it was approved by EPA for \$22,000. The grant balance of \$5,500 was not required to complete the project. The original grant award document required that quarterly progress reports be prepared and that a final financial status report be prepared within 90 days after the end of the project. Based on our review of documents at Public Works, we found two progress reports (June 29, 1998 and February 17, 1999) and two financial status reports (February 18, 1999 and April 14, 1999) that did not present accurate financial information.

Used Oil Management Program. During the period of September 1995 to July 1996, EPA awarded a grant and one amendment totaling \$240,000 (\$120,000 Federal share and \$120,000 local share) to assist Public Works with its used oil management program. The approved budget for project costs totaled \$240,900 for personnel, equipment, supplies, construction, and other expenses. Because the approved budget totaled \$900 more than the grant award, the excess costs were to be provided from local funds. The grant period was from October 1, 1995 to September 30, 1996. During the period of February 1996 to August 1999, Public Works incurred costs of \$398,505 for the used oil management program. We found that during calendar years 1997 and 1998, the Project Manager and the Waste Oil Coordinator resigned from their positions and that the current Waste Oil Coordinator was unaware that the project period had expired. In June 1998, EPA informed Public Works that the grant period had expired and that only expenditures incurred during the grant period would be approved for reimbursement. During the grant period (October 1, 1995 to September 30, 1996), Public Works incurred \$94,765 for equipment, supplies, and other costs, of which \$47,383 (50 percent) would be eligible for reimbursement. However, as of September 30, 1999, Public Works had not made any requests for reimbursement. In addition, based on our review of the costs incurred against the used oil management program, we found that personnel costs were not included because Public Works did not have a methodology to accumulate, account for, and allocate employees' time to different projects. Accordingly, Public Works did not have a methodology to request the \$27,000 (50 percent of the \$54,000) in allowable personnel expenditures against the grant. The grant award required that quarterly progress reports and a final financial status report be prepared. Based on our review of grant files at Public Works, we did not find any progress reports or financial status reports for this grant.

Solid Waste Management Program. During the period of September 1997 to August 1998, EPA awarded a grant and one amendment totaling \$25,868 (\$22,000 Federal share and \$3,868 local share) for administration of the solid waste management program at Public Works. The approved budget for project costs totaled \$25,868 for personnel and fringe benefits, supplies, contractual costs, and construction costs. The grant period was

from October 1, 1997 to September 30, 1999. During the period of June 1998 to January 1999, Public Works incurred eligible expenditures totaling \$17,024 against the grant for supplies, contractual services, and construction costs. However, a request for reimbursement was not prepared until April 1999, even though the original grant award document stated that Public Works was authorized to receive advance payments. As of September 30, 1999 (the end of the grant period), there was an unobligated balance of \$8,884 (\$7,521 Federal share and \$1,323 local share), but an extension to incur expenditures beyond September 30, 1999 had not been requested by Public Works. In addition, expenditures for personnel costs totaling \$3,290 were not claimed because Public Works did not have a methodology to accumulate, account for, and allocate employees' time to different projects. The original grant award agreement required that a final financial status report be prepared 90 days after the end of the grant period and that quarterly progress reports be prepared which outlined the activities completed under the grant agreement. Based on our review of documents at Public Works, we found one interim financial status report dated April 21, 1999 (although only a final financial status report was required) and two progress reports dated March 30, 1999 and February 26, 1998.

Grants Administered by the Corps of Engineers

The Corps administered four grants totaling \$5.4 million for four projects through a memorandum of agreement with Public Works and a memorandum of understanding with EPA. As of September 30, 1999, three of the four projects had been completed by the Corps and closed out by EPA, and one project was substantially completed. We were unable to review all claimed costs against the grants because (1) Public Works had not maintained grant award documents, documentation to support all expenditures claimed against the grants, or financial status reports for the projects and (2) the Corps provided us only grant award documents and supporting documentation for some of the construction-related expenditures. Accordingly, we classified costs of about \$1.3 million claimed for construction-related costs and for administration, architectural engineering, project inspection, and other expenses as unsupported. We also found that the Corps may have incurred expenditures totaling about \$715,914 in excess of the amounts reimbursed by EPA for two of the projects. Finally, we noted that Public Works requested an additional \$130,000 from EPA to repair work administered by the Corps.

Memoranda of Agreement and Understanding. In accordance with Section 406 of the Water Resources Development Act of 1990 (Public Law 101-640), the Governor of the Virgin Islands requested, in January 1991, that the Corps provide design and construction assistance for grants awarded by EPA. The Water Resources Development Act states that "the Secretary of the Army is authorized to receive Federal financial assistance with respect to construction projects in the Virgin Islands upon request of the Governor of the Virgin Islands." Accordingly, in August 1991, the Government of the Virgin Islands and the Department of the Army (through the Corps) entered into a memorandum of agreement. The agreement stated that the Corps would provide design and construction assistance for projects funded by EPA but that the Government of the Virgin Islands would be responsible for the operation and maintenance of the completed projects. The agreement also stated that reimbursements by EPA would be made directly to the Corps and that the Corps would provide an accounting of grant funds to the Government of the Virgin Islands. In addition, the agreement stated that the Government of the Virgin Islands was responsible for paying

the Corps for all project costs not reimbursed by EPA. As a result of the memorandum of agreement, in August 1992, EPA and the Department of the Army (through the Corps) entered into a memorandum of understanding pursuant to the Economy Act of 1932 (31 U.S.C. § 1535) and the Water Resources Development Act of 1990 (Public Law 101-640) for grants awarded to the Government of the Virgin Islands.

Regarding payment requests for work performed by the Corps, the memorandum of understanding stated that payment requests would be submitted by the Corps directly to EPA, with a copy submitted to Public Works, and that EPA would not make payment for a period of 10 days to allow Public Works sufficient time to review the payment request. However, Public Works Grants Manager told us that the Corps provided Public Works only with a schedule of expenditures and a status schedule of the projects and that this information was not sufficient for Public Works to determine the reasonableness and the allowability of costs claimed against the grants by the Corps. In addition, employees of Public Works Environmental Engineering Division told us that they were unaware of the provisions of the memoranda of agreement and understanding.

At the March 14, 2000 exit conference on the preliminary draft of this report, Public Works officials stated that EPA required the services of the Corps as a condition for Public Works to receive the EPA grant funds. In addition, these officials stated that they were not included in the review of payment requests submitted by the Corps to EPA, as required by the memorandum of understanding.

Emergency Generator Units at St. Croix Pump Stations. During the period of September 1991 to February 1997, EPA awarded a grant and three amendments totaling \$570,830 for the construction and installation of 9 generators and the refurbishment of 2 generators at 11 pump stations on St. Croix. The approved budget for project costs totaled \$570,830 for administration, architectural engineering, project inspection, and construction. The project period was from October 1991 to February 1997, and EPA closed out the grant in February 1997. During the period of September 1992 to January 1996, the Corps submitted 18 requests for reimbursement totaling \$1,202,498 to EPA and was reimbursed the grant amount of \$570,830, leaving an unpaid balance of \$631,668. Summary records of expenditures provided to us by the Corps totaled \$1.2 million, but we were unable to determine which costs were reimbursed by EPA. Further, although the memorandum of agreement stated that the Government of the Virgin Islands was responsible for paying the Corps for all project costs not reimbursed by EPA, we found only one invoice from the Corps to Public Works, totaling \$37,569, which represented the amount not reimbursed by EPA on the final request for reimbursement. Public Works did not pay this amount, and in turn, the Corps did not reimburse Public Works for advance design costs totaling \$37,104 that were incurred by Public Works on this and two other projects (St. Croix pump station rehabilitation and St. Croix wastewater treatment plant rehabilitation).

Emergency Generator Units at St. Thomas and St. John Pump Stations. During the period of September 1993 to September 1998, EPA awarded a grant and an amendment totaling \$1,060,621 for the purchase of 10 generator units to maintain emergency power at 13 pump station sites on St. Thomas and St. John. The approved budget for project costs totaled \$1.06 million for administration, architectural engineering, project inspection, and construction. The grant period was from October 1993 to February 1996. EPA closed out

the grant in September 1998 and retroactively approved costs through December 1997. During the period of October 1993 to December 1997, the Corps submitted 10 requests for reimbursement totaling \$1,144,867 to EPA and was reimbursed the grant amount of \$1,060,621, leaving an unpaid balance of \$84,246. The Corps provided us with construction-related documents that substantiated costs incurred of \$893,880. Therefore, we classified as unsupported the balance of costs of \$250,987 claimed for administration, architectural engineering, and project inspection. Based on our review of files at Public Works, we did not find any documentation to indicate that the Corps billed Public Works for the \$84,246 not reimbursed by EPA.

St. Croix Pump Station Rehabilitation. During the period of September 1992 to July 1997, EPA awarded a grant and four amendments totaling \$2,093,246 for the removal, replacement, and installation of complete sets of motor/drive/pump assemblies at four pump stations on St. Croix (Lyndon B. Johnson, Figtree, Lagoon, and Anguilla). The approved budget for project costs totaled \$2.1 million for administration, architectural engineering, project inspection, construction, miscellaneous costs, and contingencies. The project period was from October 1992 to May 1999. As of January 31, 1999, the project was classified as 99 percent complete by the Corps. During the period of October 1993 to January 1999, the Corps submitted 14 requests for reimbursement totaling \$2,083,543 to EPA, all of which were reimbursed. Based on our review, we substantiated construction-related expenditures of \$1,386,057 and classified the balance of \$697,486 as unsupported. The unsupported costs consisted of \$498,312 for administration, architectural engineering, project inspection, and other expenses and \$199,174 for construction-related costs. EPA's Grants Management Specialist told us that the Corps had submitted additional expenditures for reimbursement totaling about \$200,000 but that only \$9,703 was available for expenditure on this grant as of September 30, 1999.

Beginning in June 1999 (about 5 months after substantial completion of the project), the Lyndon B. Johnson and the Figtree pump stations malfunctioned when underground pipes broke and caused millions of gallons of raw sewage to spill into the harbor and streets of Christiansted, St. Croix. Public Works Project Manager told us that the pump stations were incomplete and unusable, although the Corps classified the project as substantially complete. As a result of this incident and based on a request from Public Works, EPA provided funds totaling \$130,000 from fines paid by the Government of the Virgin Islands into the corrective action trust fund to repair the Lyndon B. Johnson pump station and part of the Figtree pump station. Because the Figtree pump station repairs were not completed, sewage continued to overflow.

St. Croix Wastewater Treatment Plant Rehabilitation. During the period of October 1992 to July 1998, EPA awarded a grant and three amendments totaling \$1,690,808 for the replacement of the mechanical bar screen, grit collector, and clarifier sludge collector at the primary wastewater treatment plant on St. Croix. The approved budget for project costs totaled \$1.69 million for administration, architectural engineering, project inspection, construction, and miscellaneous costs. The grant period was from October 1992 to August 1998. The Corps completed the project in September 1997, and EPA closed out the grant in July 1998. During the period of October 1993 to September 1997, the Corps submitted eight requests for reimbursement totaling \$1,605,233 to EPA. However, based on information provided by EPA, we determined that the Corps was

reimbursed \$1,690,808. Based on documentation provided by the Corps, we substantiated construction-related costs totaling \$1,370,407. We classified as unsupported the balance of costs of \$320,401 for administration, architectural engineering, project inspection, and other expenses.

Records Management

Public Works did not maintain adequate documentation of grant awards, grant award amendments, and property records. Regarding grant award documents, 40 CFR 31.42 requires grantees to maintain all grant-related documents for 3 years after the final expenditure report has been submitted. Regarding property records, 40 CFR 31.32 states:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Grant Award Documents. Public Works did not have on file 6 of the 21 grant award documents (original and amended) for the six projects administered by Public Works or any of the 15 grant award documents (original and amended) for the four projects administered by the Corps. We found that without copies of the original and the amended grant documents, Public Works officials were not aware of the project periods, the allocation (by cost element) of approved grant award funds, the progress report and financial status report filing requirements, and other special conditions outlined in the grant awards and amendments.

Property Records. Public Works did not maintain property records or conduct physical inventories in accordance with the Code. Public Works provided us with an undated list of 25 generators on St. Thomas and St. John, which contained only the location and the basic characteristics (model number, voltage, and engine type) of each generator. An inventory list was not provided for generators on St. Croix. In October 1999, we visited 17 pump stations on St. Thomas and 5 pump stations on St. John and located 22 generators. Of the 22 generators located, only 4 generators had Government of the Virgin Islands property tags. Accordingly, because property records were not maintained, periodic physical inventories were not conducted, and government tags were not placed on all of the generators, Public Works did not have adequate assurance that the generators were safeguarded against loss, damage, or theft.

Electronic Fund Transfers

Public Works received U.S. Treasury checks (rather than electronic transfers of Federal funds) from EPA to satisfy requests for reimbursement of grant costs. The Debt Collection Improvement Act of 1996 requires that Federal payments be made by electronic funds

transferred after January 2, 1999. To comply with the Act, EPA requires grantees to complete and return an Automated Clearing House Vendor Payment System form and an assistance agreement form. However, as of September 30, 1999, Public Works had not completed and returned the forms to EPA.

Environmental Engineering Division Staffing

The Environmental Engineering Division did not have a director, an assistant director, or a solid waste coordinator. We found that because these key positions were vacant, the environmental engineers, the waste oil coordinator, and the project manager who worked in the Division were not provided appropriate management oversight and direction. These employees were not cognizant of the specific purposes of available Federal grant funds, did not establish procedures to document their time spent on Federal grants so that Public Works could be reimbursed, and did not coordinate with Public Works Grants Management Unit to timely complete financial status reports and requests for reimbursement. We believe that in order to provide an adequate level of management oversight, Public Works should fill the positions of director, assistant director, and solid waste coordinator with individuals who have the requisite education and experience.

Recommendations

We recommend that the Governor of the Virgin Islands require the Department of Public Works to:

1. Provide EPA with project schedules for completion of the Mangrove Lagoon wastewater treatment plant by March 2002 and the Cruz Bay wastewater treatment plant by June 2000 to ensure that the Government of the Virgin Islands complies with the consent decree.
2. Request, through EPA, a grant amendment to extend the construction deadline for the Cruz Bay wastewater treatment plant from July 1998 to June 2000. In addition, the Department of Property and Procurement should be requested to process an extension of the Cruz Bay wastewater treatment plant contract through June 2000.
3. Establish a methodology consistent with the requirements of Office of Management and Budget Circular A-87 to accumulate, account for, and allocate employees' time to different jobs to ensure that Public Works has the documentation necessary to support requests for reimbursement of grant-related personal services costs.
4. Either return to EPA (through the U.S. Treasury) the \$6,543 in excess reimbursement received on the Crown Bay sewer extension grant or prepare proper supporting documentation to claim the \$6,543 as an administrative expenditure.
5. Review the grant award agreements and supporting documentation for the Crown Bay sewer extension and solid waste management program to determine whether any of the administrative costs of \$63,819 can be claimed against the grant and review the grant award agreements and supporting documentation for the Mangrove Lagoon (\$319,552) and Cruz Bay (\$129,872) wastewater treatment plant projects and the used oil management program

(\$27,500) to determine whether records will be sufficient to allow the budgeted administrative costs totaling \$476,924 to be incurred and claimed against those grants.

6. Request that the Corps provide Public Works with supporting documentation for administration, architectural engineering, project inspection, and other costs totaling \$1,268,874 that were classified as unsupported.

7. Prepare and submit to EPA, as required by the grant awards, final financial status reports for the Crown Bay sewer extension and pollution prevention program grants and quarterly progress reports for the pollution prevention, used oil management, and solid waste management program grants. Also, a request for reimbursement for expenditures incurred against the used oil management program grant should be prepared and submitted to EPA for the period of October 1, 1995 to September 30, 1996.

8. Establish procedures at the Department of Public Works to properly file and safeguard grant-related documents, including notifications of grant awards, grant award amendments, memoranda of agreement and understanding, financial status and project progress reports, and documents that support the quantity and the cost of administrative support services provided by Public Works employees.

9. Ensure that Department of Public Works personnel are familiar with and comply with the types and classifications of allowable grant expenditures and the filing requirements for financial status and progress reports.

10. Establish procedures to ensure that property control records for equipment purchased with Federal funds are maintained and that physical inventories of the property are conducted in accordance with the requirements contained in 40 CFR 31.32.

11. Complete and return the Automated Clearing House Vendor Payment System form and assistance agreement form to the Environmental Protection Agency in accordance with the Debt Collection Improvement Act of 1996 so that requests for grant reimbursements can be processed through electronic funds transfers.

12. Seek qualified candidates to fill the vacant positions of director, assistant director, and solid waste coordinator in the Environmental Engineering Division.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The June 12, 2000 response (Appendix 3) to the draft report from the Governor expressed nonconcurrence with Recommendations 1, 3, 4, 7, 8, 9, and 10; partial concurrence with Recommendation 2; and concurrence with Recommendations 5, 6, 11, and 12. Based on the response, we consider Recommendations 4 and 6 resolved and implemented; Recommendations 1, 3, 5, and 11 resolved but not implemented; and Recommendations 2, 7, 8, 9, 10, and 12 unresolved (see Appendix 4).

Recommendation 1. Nonconcurrence.

Governor of the Virgin Islands Response. The response stated that "a general project schedule for completion has already been submitted" to the EPA for the Mangrove Lagoon project and that "as [a] contract is implemented for the construction phase of the project, a revised and detailed schedule of completion will be developed." The response also stated, with regard to the Cruz Bay project, that the "Environmental Engineer and program Manager for the project, has been instructed to develop and submit the completion schedule for this project, with a deadline of July 15, 2000."

Office of Inspector General Reply. The response did not include a copy of the "general project schedule" for the Mangrove Lagoon project, and a completion schedule had not been developed as of the date of the Governor's response for the Cruz Bay project. Therefore, we request copies of these schedules.

Recommendation 2. Partial concurrence.

Governor of the Virgin Islands Response. The response stated that the Program Manager had been directed to request an extension of the EPA grant for the Cruz Bay project but that the construction project could not be extended at this time because "consideration is being given to whether the contractor should be paying liquidated damages for failure to complete the contract on time, or whether there are mitigating circumstances that might warrant a time extension."

Office of Inspector General Reply. Based on the response, Public Works is taking actions that meet the intent of the recommendation. However, we request a target date for the decision as to whether the contractor will be held liable for liquidated damages or an extension of the construction contract will be executed.

Recommendation 3. Nonconcurrence.

Governor of the Virgin Islands Response. The response stated that the need for a methodology to accumulate, account for, and allocate employees' time to different projects "was identified prior to the audit" and that "a Time and Attendance Report form was developed by the Grants Management Office" and "was implemented by a Memorandum from the Commissioner dated December 7, 1999."

Office of Inspector General Reply. In response to information we provided about the lack of an adequate process to account for and distribute time charges to grants, the Grants Manager developed a Time and Attendance Report form and submitted it to the auditors for review and comment. Additionally, although the Commissioner issued a memorandum dated December 7, 1999 to Public Works staff to implement use of the form, in a followup memorandum dated May 8, 2000 the Commissioner stated, "To the present, a number of employees working on federal aid programs have not completed the form and returned it to the Grants Management Office, as instructed." Therefore, an oversight process still needs to be developed to ensure that the forms are properly completed.

Recommendation 4. Nonconcurrence.

Governor of the Virgin Islands Response. The response stated, "This error [excess reimbursement] was discovered and corrected more than three months prior to the conclusion of the audit. We, therefore, believe that while the item could have been discussed in the findings, there was no need for a recommendation."

Office of Inspector General Reply. The excess reimbursement of \$6,543 referred to in the recommendation was discovered by our auditors and brought to the attention of Public Works officials during the audit. However, prior to the response to the draft report, we were not provided with any documentation to support that the amount had been refunded to EPA. Therefore, this amount was included in the finding and the related recommendation.

Recommendation 5. Concurrence.

Governor of the Virgin Islands Response. The response stated that "problems associated with documenting and claiming administrative costs . . . were identified prior to the audit" and that "to correct the problem going forward, the Grants Management Office has developed a Time and Attendance form to record payroll time by projects." The response also stated that "work has begun by the Grants Manager and staff to research records, prepare schedules; and obtain reports and certification from program managers; in an effort to draw down the administrative costs in question." The response provided August 31, 2000 as the date for implementation of the recommendation.

Office of Inspector General Reply. As indicated in the Office of Inspector General Reply comments for Recommendation 3, the Time and Attendance form was developed by the Grants Manager in response to our finding, with input from our auditors.

Recommendation 6. Concurrence.

Governor of the Virgin Islands Response. The response stated that the Commissioner wrote a letter dated May 19, 2000 to the Corps of Engineers requesting documentation for the unsupported costs of about \$1.3 million referenced in the recommendation. The response also stated that Public Works "requested the EPA not to make payment through the Corps, for work assignment #4 for rehabilitation of pump stations on St. Croix."

Office of Inspector General Reply. We request that Public Works notify our office when the requested supporting documents are provided by the Corps of Engineers.

Recommendation 7. Nonconcurrency.

Governor of the Virgin Islands Response. The response stated that final financial status reports for the Crown Bay sewer extension program "cannot be submitted at this time because the Corps, who were appointed by the EPA to inspect the project, has still to complete that task." The response also stated, with regard to the pollution prevention program grant, that "a final progress report and three reports from the consultants on this project were submitted to EPA on February 17, 1999. . . . The GMO [Grants Management Office] is in the process of preparing a claim for administrative costs against the balance in this grant. Once this is done, a final financial status report will be submitted [by August 31,

2000]." The response stated, with regard to the used oil management program grant, that a request for reimbursement of expenditures "was made 11/29/1999, and reimbursement was received for expenditures incurred within the grant period. [Public Works] also requested and received from the EPA an extension of the grant and budget period to November 30, 1999."

Office of Inspector General Reply. At the time of the audit, the Grants Management Office was not aware of the status of the various EPA grants mentioned in the recommendation, and as a result, financial status reports and progress reports had not been submitted in a timely manner. Our auditors provided the Grants Management Office with information on the status of the projects. Our comments on the three projects discussed in the response are as follows:

- Work on the Crown Bay sewer extension project was apparently completed in 1998, and the last disbursement of funds by EPA under the grant was made in July 1998. If the Corps of Engineers was conducting a final inspection of the project in June 2000, there was a significant delay on the part of Public Works to request the final inspection.

- The February 17, 1999 letter to EPA referenced in the response was a request to extend the period for the pollution prevention grant to May 31, 1999 "to facilitate payment of the contractor." The final progress report and three contractor reports also referenced in the response were work products prepared by the contractor as part of the project. These documents were not the grant financial status reports and progress reports (as specified in Federal grant administration regulations) that are routinely required for grant programs. Additionally, although the original grant period ended on July 31, 1998, Public Works did not request an extension until February 17, 1999, or 6 ½ months later. A March 2, 2000 letter from an EPA official to Public Works stated: "**The grant officially ended on 7/31/98 and we need to close it out right away.** We do not have your final report or final financial status report on file so I need you to send these to me ASAP." (Emphasis in original.) We believe, from internal Public Works correspondence submitted with the response, that Public Works officials confused the contractor's work products and reports with the standard grant financial status reports and progress reports.

- Although the period for the used oil management program grant ended on September 30, 1996, Public Works did not request an extension of the grant period until November 29, 1999, and this extension was requested as a result of our audit. On April 28, 2000, after completion of the audit, EPA granted an extension until November 30, 1998 to allow Public Works to obtain reimbursement for grant costs incurred to that date. However, the documents provided with the response do not show that Public Works was actually reimbursed for those costs. Accordingly, Public Works still needs to file the financial status reports and progress reports for the grants. Additionally, with regard to requesting reimbursement for costs of the used oil management program grant, no documentation was provided to show that reimbursement of program costs was actually requested.

Recommendation 8. Nonconcurrence.

Governor of the Virgin Islands Response. The response stated, "While we agree on the need to properly file and safeguard grant related documents, the procedures for doing

so already exist in OMB Circular A-87. The fact that grant related records at [Public Works] are not properly organized has more to do with the lack of human and other resources to be applied to this area." The response also stated, "This activity [the hiring of additional personnel] is the responsibility of the Director of Human Resources/Comptroller, and subject to existing financial constraints, it is expected that additional resources can be applied to this area by August 31, 2000."

Office of Inspector General Reply. Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," defines what types of costs are allowable or unallowable under grant programs. The "Administrative Requirements for Grants to State and Local Governments," which includes generic record-keeping requirements, is contained in the Code of Federal Regulations. The record-keeping requirements contained in the Code are meant to be broad standards, not detailed policies and procedures that include information such as the specific documents to be filed, how and where they are to be filed, and by whom they are to be filed and maintained. Such detailed policies and procedures should be developed by Public Works in accordance with its own organizational structure and specific needs.

Recommendation 9. Nonconcurrency.

Governor of the Virgin Islands Response. The response stated that "existing financial personnel have been trained in Grants Management." The response also stated, "Corrective action in this area would have to do with increasing the resources assigned to the management of federally funded programs within [Public Works]. Responsibility for this activity rests with the Director of Human Resources and Comptroller, with an estimated effective date of August 15, 2000."

Office of Inspector General Reply. Based on our observations and the condition of grant records, we believe that Public Works financial and grants management personnel should be scheduled for additional grants management training. In that regard, Public Works may contact the Virgin Islands Office of Personnel Management to determine whether such training can be provided through the Virgin Islands Training Initiative, which is funded by the Office of Insular Affairs, U.S. Department of the Interior.

Recommendation 10. Nonconcurrency.

Governor of the Virgin Islands Response. The response stated that "procedures already exist through-out the V.I. Government for recording and maintaining control of equipment purchased with federal funds." The response also stated that Public Works "has purchased and installed a computerized property management software system and is in the process of implementing the same for all equipment including that which is federally funded." The response further stated that emergency power generators assigned to Public Works on St. Croix are listed in records of the Department of Property and Procurement and that Public Works officials "have been instructed to maintain hard copy records, and a listing by granting agency, program, and island, of all equipment purchased with federal funds. . . . This information is to be used to initiate the computerized system."

Office of Inspector General Reply. We believe that detailed policies and procedures that are specific to the needs of Public Works should be developed which define the actions to be taken to maintain adequate property control, the timing and/or frequency of such actions, and the individuals responsible for completing such actions. Regarding the list of generators on St. Croix, although an undated list of generators on St. Thomas and St. John was provided to us during the audit, the St. Croix list was not provided to us at that time. We request that Public Works provide us with the target dates for implementation of the computerized property management system and the completion of data input to the system.

Recommendation 11. Concurrence.

Governor of the Virgin Islands Response. The response stated that Public Works had contacted EPA regarding establishing an account to allow the drawdown of grant funds through electronic transfers and that the target date for completion is August 15, 2000.

Recommendation 12. Concurrence.

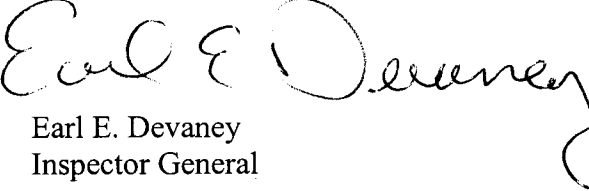
Governor of the Virgin Islands Response. The response stated that Public Works had hired a Technical Assistant "to assist in the development of organizational changes in the areas of solid waste and waste water management" and that Public Works "will make every effort to get the [vacant] positions reinstated." The response also stated, "As a means of pursuing this reinstatement, the department is working on implementing the logistics of a tipping fee and a sanitation fee which can be used to fund the positions in question."

Office of Inspector General Reply. Target dates for filling the positions of director, assistant director, and solid waste coordinator in the Environmental Engineering Division are needed.

Please provide a response to this report by October 30, 2000. The response should be addressed to our Insular Areas Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should provide the information requested in Appendix 5.

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Sincerely,


Earl E. Devaney
Inspector General

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Funds To Be Put To Better Use*</u>	<u>Questioned Costs*</u> (Unsupported Costs)
Mangrove Lagoon and Cruz Bay Wastewater Treatment Plants	\$16,600,000	
Administrative Expenditures	63,819	
Projects Administered by the Corps	<u> </u>	<u>\$1,268,874</u>
Totals	<u>\$16,663,819</u>	<u>\$1,268,874</u>

* The amounts represent Federal funds.

**SUMMARY OF EPA GRANTS AWARDED TO
DEPARTMENT OF PUBLIC WORKS,
GOVERNMENT OF THE VIRGIN ISLANDS,
AS OF SEPTEMBER 30, 1999**

<u>Grant Project</u>	<u>Grant Award*</u>	<u>EPA Reimbursements</u>	<u>Available Balance</u>
Mangrove Lagoon Plant	\$13,622,220	\$1,052,710	\$12,569,510
Cruz Bay Plant	7,933,667	3,860,244	4,073,423
Crown Bay Sewer	423,851	255,424	168,427
Pollution Prevention	27,500	22,000	5,500
Used Oil	120,000	0	120,000
Solid Waste	22,000	14,479	7,521
Generators St. Croix**	570,830	570,830	0
Generators St. Thomas**	1,060,621	1,060,621	0
Pump Station St. Croix**	2,093,246	2,083,543	9,703
St. Croix Plant**	<u>1,690,808</u>	<u>1,690,808</u>	<u>0</u>
Total	<u>\$27,564,743</u>	<u>\$10,610,659</u>	<u>\$16,954,084</u>

*Grant award amounts represent only the Federal share.

** Project administered by the U.S. Army Corps of Engineers.



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802
340-774-0001

June 12, 2000

Mr. Arnold E. Van Beverhoudt, Jr.
Office of the Inspector General
Caribbean Office
Federal Building – Room 207
St. Thomas, Virgin Islands 00802

Dear Mr. Van Beverhoudt:

Attached is the Department of Public Works' response to the Draft Audit Report on Environmental Protection Agency (EPA) grant Program # V-IN-VIS-009-99-M.

The audit report lists twelve (12) findings or recommendations for corrective actions. The Department of Public Works does not concur or partially concurs with recommendations numbers 1,2,3,4,7,8,9 and 10. The Department provides an explanation for each item where there is non-concurrence. The Department concurs with items 5,6,11, and 12 and has provided a corrective action plan for each item.

The Commissioner of Public works requested, and was granted from your office, an extension of the deadline for submission of these responses from May 31, 2000 to June 14, 2000. I thank you for the extra time we required for the preparation of these responses, and, as usual, we appreciate the assistance your office provides the Government through these audit findings.

Sincerely,

A handwritten signature in black ink that reads "Charles W. Turnbull". The signature is fluid and cursive.

Charles W. Turnbull
Governor

GOVERNMENT OF THE VIRGIN ISLANDS
PUBLIC WORKS DEPARTMENT



**RESPONSE TO FINDINGS AND RECOMMENDATIONS TO THE
OFFICE OF INSPECTOR GENERAL (OIG) DRAFT AUDIT REPORT
ON ENVIRONMENTAL PROTECTION AGENCY (EPA) GRANTS
REPORT No. V-IN-VIS-009-99-M**

**FORWARDED TO THE GOVERNOR FOR REVIEW AND SUBMISSION TO
THE US OFFICE OF INSPECTOR GENERAL (USOIG)
JUNE 7, 2000**

**GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
PUBLIC WORKS DEPARTMENT**

**Response to Findings and Recommendations of the Office of Inspector General
Draft Audit Report on Environmental Protection Agency (EPA) Grant Program
Report # V-IN-VIS-009-99-M**

The following are responses to Findings and Recommendations to the above captioned Draft Audit Report. Numbered responses are keyed to recommendations found on pages 12 and 13 of the draft report.

Finding/Recommendation 1: Provide EPA with project schedules of completion of the Mangrove Lagoon Wastewater Treatment plant by March 2002 and the Cruz Bay wastewater treatment plant by June 2000 to ensure that the Government of the Virgin Islands complies with the consent decree

Concurrence or Non-concurrence: The PWD **does not concur with this finding in its entirety**, for the following reasons: a) Mangrove Lagoon WWTP: A general project schedule of completion has already been submitted for this project, to EPA and the Corps for review and approval. We expect that as contract is implemented for the construction phase of the project, a revised and detailed schedule of completion will be developed between the Contractor and the PWD and submitted to the EPA.

b) Cruz Bay WWTP:

Corrective Action: Mr. Mirko Restovic, Environmental Engineer and program Manager for the project, has been instructed to develop and submit the completion schedule for this project, with a deadline of July 15, 2000.

Finding/Recommendation 2: Request through EPA a grant amendment to extend the construction deadline for the Cruz Bay wastewater treatment plant from July 1998 to June 2000. In addition, the Department of Property and Procurement should be requested to process an extension of the Cruz Bay wastewater treatment plant contract through June 2000.

Response to EPA Grants Audit
By Office of Inspector General
Page 2

Concurrence or Non-concurrence: The PWD only **partially concurs** with this finding for the following reasons:

a) We agree, and will move to ask EPA to extend the time of the Grant Agreement to cover the completion of the project. This activity has been assigned to Mirko Restovic, Program Manager, to prepare the request for the amendment, with review responsibility from the Grants Management Office. The deadline for this activity is June 30, 2000, (see memo. Dated June 5, 2000 attached as Exhibit 1; 1 page).

b) The PWD cannot request an extension of the construction contract for the Cruz Bay WWTP at this time. Consideration is being given to whether the contractor should be paying liquidated damages for failure to complete the contract on time, or whether there are mitigating circumstances that might warrant a time extension. The Corps is currently reviewing reasons for construction delay, and will make necessary recommendations to the EPA and DPW.

Finding/Recommendation 3: Establish a methodology consistent with the requirements of OMB Circular A-78 to accumulate, account for, and allocate employees' time to different jobs to ensure that Public Works has the documentation necessary to support requests for reimbursement of grant-related personal services costs.

Concurrence or Non-Concurrence: The PWD **does not concur with this recommendation in its entirety**, for the following reasons: While the referenced methodology has been lacking for some time, the need was identified prior to the audit. A Time and Attendance Record form was developed by the Grants Management Office (GMO), and was implemented by a Memorandum from the Commissioner dated December 7, 1999, (see copy attached as Exhibit 2 - 4 pages). A copy of this form was provided to the auditors. PWD will continue its efforts to improve in this area.

Finding/Recommendation 4: Either return to EPA (through the U.S. Treasury) the \$6,543 in excess reimbursement received on the Crown Bay sewer extension grant or prepare proper documentation to claim the \$6,543 as an administrative expenditure.

Concurrence or Non-concurrence: The PWD **does not concur** with this recommendation. This over reimbursement was due to an error in the contractor's invoice which was discovered prior to the issue of the check, but not before the request for reimbursement was processed. This error was discovered and corrected more than three months prior to the conclusion of the audit.

Response to EPA Grants Audit
Office of Inspector General
Page 3

We, therefore, believe that while the item could have been discussed in the findings, there was no need for a recommendation.

Corrective Action: On September 9, 1999 a Miscellaneous Disbursement Voucher (MDV) was issued to reimburse the amount of \$6,542.50 to the EPA . the check # 05323722 was issued by the Department of Finance on September 23, 1999 (see Exhibit 3 attached -2 pages).

Finding/Recommendation 5: Review the grant award agreement and supporting documentation for the Crown Bay sewer extension and solid waste management program to determine whether any of the about \$67,000 can be claimed against the grant and review the grant award agreement and documentation for the Mangrove Lagoon (\$319,552) and Cruz Bay (\$128,872) wastewater treatment plant projects and the Used Oil Management program (\$27,000) to determine whether records will be sufficient to allow the budgeted administrative costs totaling \$476,424 to be incurred and claimed against those grants.

Concurrence or Non-concurrence: The PWD concurs with this recommendation.

Corrective Action: Problems associated with documenting and claiming administrative costs for the above referenced grants were identified prior to the audit. In particular, payroll costs were not recorded in a manner that properly associated such costs with the grant projects. To correct the problem going forward, the Grants Management Office (GMO) has developed a Time and Attendance Record form to record payroll time by projects. The form has been implemented by the Commissioner and the GMO is following up to ensure compliance. Meanwhile, work has begun by the Grants Manager and staff to research records; prepare schedules; and obtain reports and certification from program managers; in an effort to draw down the administrative costs in question. Various program managers have been instructed to work with the GMO to accomplish this, with a target date of August 31, 2000. The grants management unit is relatively new and the lack of proper organization, and the lack of human and other resources have resulted in grants administrative activities being performed in a less than timely manner. We hope to correct this problem by assigning additional resource to this area.

Finding/Recommendation 6: Request that the Corps provide Public Works with supporting documentation for administration, architectural engineering, project inspection and other costs totaling \$1,268,874 that were classified as unsupported.

Response to EPA Grants Audit
Office of Inspector General
Page 4

Concurrence or non-concurrence: The PWD concurs with this recommendation.

Corrective Action: Attached is a letter from the Commissioner of Public Works to the Army Corps dated May 19, 2000 (Exhibit 4; 1 page), requesting documentation for the costs in question. The Corps were very intermittent in submitting copies of invoices to the PWD for review. In addition, the PWD requested the EPA not to make payment through the Corps, for work assignment # 4 for rehabilitation of pump stations on St. Croix.

Finding/Recommendation 7: Prepare and submit to EPA, as required by the grant awards, final financial status reports for the Crown Bay sewer extension and pollution prevention program grants and quarterly progress reports for the pollution prevention, used oil management, solid waste management programs. Also, a request for reimbursement of expenditures incurred against the used oil management program grant should be prepared and submitted to EPA for the period of October 1, 1995 to September 30, 1996.

Concurrence or non-concurrence: The PWD does not concur with this commendation in its entirety, for the following reasons:

- a) **Crown Bay sewer extension program grant final financial status and progress reports:** Although this project is substantially complete, these final reports cannot be submitted at this time because the Corps, who were appointed by the EPA to inspect the project, has still to complete that task. The Corps is presently reviewing delays in construction and will make recommendations regarding the same. Once this is done the PWD will move to submit final reports and close out the grant.
- b) **Pollution Prevention Grant final financial status and quarterly progress reports:** 1 A final progress report and three reports from the consultants on this project were submitted to EPA on February 17, 1999 (see copy of the reports and letter to Jeanne M. Fox attached as Exhibit 6; 102 pages). The GMO is in the process of preparing a claim for administrative costs against the balance in this grant. Once this is done, a final financial status report will be submitted. This activity is the responsibility of the Grants Manager and deadline of August 31, 2000 is set for its completion.
- c) **Used Oil Management program grant – request for reimbursement of expenditures:** This request was made 11/29/1999, and reimbursement was received for expenditures incurred within the grant period. The PWD also requested and received from the EPA an extension of the grant and budget periods to November 30, 1998, which allows the department to be reimbursed for expenditures on this program that were incurred outside the initial grant period, (see copy of grant amendment and cover letter attached as Exhibit 7; 3 pages).

Response to EPA Grants Audit
US Office of Inspector General
Page 5

Finding/Recommendation 8: Establish procedures at the Department of Public Works to properly file and safeguard grant related documents, including notification of grant awards, grant award amendments, memoranda of agreement and understanding, financial status and progress reports, and documents that support the quantity and cost of administrative support services provided by Public Works employees.

Concurrence or Non-concurrence: The PWD **does not concur with this recommendation in its entirety**, for the following reasons: While we agree on the need to properly file and safeguard grant related documents, the procedures for doing so already exist in OMB Circular A-87. The fact that grant related records at the PWD are not properly organized has more to do with the lack of human and other resources to be applied to this area, and to the lack of commitment to these activities in the past, than to the availability and knowledge of procedures for this activity. The PWD is actively pursuing additional resources, including personnel to be applied to the area of grants administration. This activity is the responsibility of the Director of Human Resources/Comptroller, and subject to existing financial constraints, it is expected that additional resources can be applied to this area by August 31, 2000.

Finding/Recommendation 9: Ensure that Department of Public Works personnel are familiar with and comply with the types and classification of allowable grant expenditures and filing requirements for financial status and progress reports.

Concurrence or non-concurrence: The PWD **does not concur with this recommendation in its entirety**, for the following reason(s): While there is always room for improving the training and knowledge of personnel in the areas of program and financial management of federal grant programs, existing financial personnel have been trained in Grants Management. The major problem, however, is the large volume of work involved both for proper management of the technical programs and for grants administration, for which resources are sorely lacking.

Corrective action in this area would have to do with increasing the resources assigned to the management of federally funded programs within the PWD. Responsibility for this activity rests with the Director of Human Resources and Comptroller, with an estimated effective date of August 15, 2000.

Response to EPA Grants Audit
US Office of Inspector General
Page 6

Recommendation 10: Establish procedures to ensure that property control records for equipment purchased with federal funds are maintained and that physical inventories of the property are conducted in accordance with the requirements contained in 40 CFR § 31.32.

Concurrence or non-concurrence: The PWD does not concur with this finding and recommendation in its entirety, for the following reasons:

- a) Procedures already exist through-out the V.I. Government for recording and maintaining control of equipment purchased with federal funds (see attached Memorandum from Director of OMB dated 8/26/97 – Exhibit 8; 4 pages).
- b) The PWD has purchased and installed a computerized property management software system and is in the process of implementing the same for all equipment including that which is federally funded. Moreover, the generators in question are massive pieces of equipment that are bolted into the buildings, and would not likely be the subject of theft. A copy of the new PWD Property Control Sheet is attached as (Exhibit 9; 1 page).
- c) A listing of emergency power generators from the Department of Property and Procurement (DP&P) dated 5/99 indicate that the generators in question are listed in the records of that department. DP&P is the agency responsible for government property records, both federal and local, (see listing attached as Exhibit 10, 3 pages).
- d) The Financial Analyst on St. Thomas and the Financial Officer on St. Croix, who work with the Grants Management Office, have been instructed to maintain hard copy records, and a listing by granting agency, program, and island, of all equipment purchased with federal funds (see attached memorandum dated April 29, 1998; Exhibit 11; 2 pages). This information is to be used to initiate the computerized system.

Finding/Recommendation 11: Complete and return the Automated Clearing House Vendor Payment System form and assistance agreement form to the Environmental Protection Agency in accordance with the Debt Collection Improvement Act of 1996 so that request for grants reimbursement can be processed through electronic funds transfers.

Concurrence or non-concurrence: The PWD concurs with this recommendation

Corrective Action: This item is presently being pursued with the EPA, and the necessary forms have been requested by telephone. The Grants Manager is responsible for following up and completing procedures for electronic draw downs by August 15, 2000.

Response to EPA Grants Audit
US Office of Inspector General
Page 7

Finding/Recommendation 12: Seek qualified candidates to fill the vacant positions of Director, assistant director and solid waste coordinator in the Environmental Engineering Division.

Concurrence or non-concurrence: The PWD **concurs** with this finding/recommendation.

Corrective Action Plan: The Department has hired an eminently qualified Technical Assistant to the Commissioner to assist in the development of organizational changes in the areas of solid waste and waste water management. Due to budgetary constraints, a number of engineering positions have been deleted from the budget. The PWD will make every effort to get the positions reinstated. As a means of pursuing this reinstatement, the department is working on implementing the logistics of a tipping fee and a sanitation fee which can be used to fund the positions in question.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1	Resolved; not implemented.	Provide a copy of the general project schedule for the Mangrove Lagoon project and the completion schedule for the Cruz Bay project.
2	Management concurs; additional information needed.	Provide the target date for a decision as to whether the contractor for the Cruz Bay project will be held liable for liquidated damages or an extension of the contract will be executed.
3	Resolved; not implemented.	Provide documentation to support that all Public Works employees working on Federally funded programs are using the Time and Attendance Report form on a regular basis to allocate their hours among programs.
4	Implemented.	No further action is required.
5	Resolved; not implemented.	Provide documentation to support that efforts have been made to determine whether administrative costs incurred by Public Works can be claimed against the various EPA grant programs.
6	Implemented.	No further action is required. However, a copy of the notification as to when the Corps of Engineers submits the requested documentation should be provided to our office.
7	Unresolved.	Provide a plan that includes the target dates and the titles of the officials responsible for preparing and submitting to EPA the delinquent financial status and progress reports and for requesting reimbursement of costs of the used oil management program.

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
8	Unresolved.	Provide a plan that includes the target date and the title of the official responsible for developing internal policies and procedures for the management of grant-related documents in accordance with the grant administrative requirements contained in the Code of Federal Regulations.
9	Unresolved.	Provide a plan that includes the target date and the title of the official responsible for providing Public Works financial and grants management personnel with updated training on grant administrative requirements and cost principles.
10	Management concurs; additional information needed.	Provide the target date for implementing the computerized property management system, including input of data on Federally funded equipment for which Public Works is accountable.
11	Resolved; not implemented.	Provide documentation to support that procedures have been established to allow Public Works to draw down EPA grant funds through electronic fund transfers.
12	Management concurs; additional information needed.	Provide the target date for filling the positions of director, assistant director, and solid waste coordinator of the Environmental Engineering Division.

**ILLEGAL OR WASTEFUL ACTIVITIES
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