



United States Department of Agriculture
Office of Inspector General





Rural Utilities Service Controls Over Recovery Act Water and Waste Loans and Grants Expenditures and Performance Measures

Audit Report 09703-0001-22

What Were OIG's

Objectives

We reviewed the effectiveness of RUS' Recovery-Act specific performance measures for WWD. We also reviewed whether controls over WWD expenditures were adequate to ensure RUS spent Recovery Act funds as intended.

What OIG Reviewed

To assess the performance measures, we analyzed whether the controls, as designed, adequately evaluated achievements in terms of outcomes, and whether controls were in place over the reporting of the measured achievements. To assess controls over expenditures, we reviewed 16 Recovery Act WWD projects with obligations totaling approximately \$124 million, and a sample of 30 projects from 11 borrowers with obligations totaling \$156.8 million.

What OIG Recommends

RUS should develop guidance and train staff on how to close obligations and conduct unliquidated obligations reviews. RUS should also develop tools to track inactive projects, and return approximately \$454,355 in inactive and improperly spent funds to the Department of the Treasury.

OIG evaluated RUS' Recovery Act performance measures and controls over expenditures for WWD loans and grants to assess whether the agency used Recovery Act funds to achieve Recovery Act goals.

What OIG Found

The Office of Inspector General (OIG) determined that Rural Utilities Service (RUS) designed and implemented performance measures for Water and Waste Disposal System (WWD) loans and grants that effectively measured how RUS used Recovery Act funds to achieve Recovery Act goals. We evaluated the performance goals, which aimed to, for instance, reduce rural people's exposure to water-related hazards, and to save or create 56,000 jobs. Based on our evaluation, we concluded that these goals adequately measured RUS' achievements in meeting both Recovery Act and WWD program objectives. We found that RUS had an effective system for gathering data specific to the reported measures and could reasonably ensure reporting was proper.

We also assessed controls over project expenditures and concluded that they were reasonably effective to ensure that RUS used Recovery Act funds to complete projects as intended. However, our review disclosed that RUS needs to improve controls over grant funds remaining after projects are complete. Specifically, we identified a borrower with multiple WWD projects that improperly transferred grant funding from one completed project to another project, which is prohibited. This occurred due to weaknesses in controls for deobligating funds remaining after projects are completed, and, also, in part, because Rural Development does not currently track project expenditures at the national level. The transferred \$158,252 was part of \$454,355 in grant funding that remained inactive for a period of more than 2 years, while a backlog of other WWD projects waited for funding. RUS generally agreed with our recommendations and we accept management decision for all recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: March 26, 2013

AUDIT
NUMBER: 09703-0001-22

TO: Dallas Tonsager
Under Secretary
Rural Development

John Padalino
Acting Administrator
Rural Utilities Service

ATTN: John Dunsmuir
Acting Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Utilities Service Controls Over Recovery Act Water and Waste Loans and
Grants Expenditures and Performance Measures

This report presents the results of our audit of the Department of Agriculture's controls over Recovery Act Water and Waste Loans and Grants expenditures and performance measures. Your written response to the official draft report, dated March 14, 2013, is attached, with excerpts and the Office of Inspector General's (OIG) position incorporated into the Finding and Recommendation sections of the report, where applicable. Based on your written response, we are accepting your management decisions for all audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objectives

Background

The American Recovery and Reinvestment Act of 2009 (Recovery Act) aimed to promote economic recovery, assist those most impacted by the recession, provide investments in science and health, invest in infrastructure with long-term benefits, and stabilize State and local government budgets. Congress, as a part of the Recovery Act, designated \$2.8 billion in loan funds and \$968 million in grant funds for the Water and Waste Disposal System (WWD) Loan and Grants Program.¹ Rural Utilities Service (RUS), a component agency within the Department of Agriculture's (USDA) Rural Development agency, administers the WWD program to improve the quality of life and promote economic development in rural America.

The WWD program provides direct loans and grants for water, sewer, storm water, and solid waste disposal systems in rural cities and towns having a population up to 10,000 people. Loan and grant funds may be used to construct, enlarge, or otherwise improve rural water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities. Through 47 Rural Development State offices, as well as area and local offices, RUS obligated \$3.3 billion in Recovery Act loans and grants during fiscal years (FY) 2009 and 2010. The loans and grants provide funding to 740 borrowers for 834 projects throughout the United States.²

Public entities may apply for WWD loan and grant funds. For instance, the Board of Commissioners in Allegheny County, Maryland, applied to fund the construction of new water lines, meters, and fire hydrants to serve 150 people in the county. In September 2007, RUS obligated \$1,556,000 in grant funds and \$600,000 in loan funds for that project. Construction started in November 2008 and was completed by June of 2010.

RUS may work with public entities on multiple projects. For instance, in September 2009, RUS funded another Allegheny County Board of Commissioners' project. This project, which served 110 people, included 14,800 feet of water pipe, a water pumping station, and other features, as well as added fire hydrants. RUS obligated \$1,267,000 in grant funds and \$624,000 in loan funds from the Recovery Act appropriation for this project.

Following the passage of the Recovery Act, Rural Development developed an implementation plan to address how it would meet the Recovery Act goals, and updated the plan in May 2010.³

¹ Rural Development's updated Implementation Plan (May 2010) anticipated the actual obligation of funds would be around \$3.3 billion due to a change in the subsidy rate between FYs 2009 and 2010 and reprogrammed loan amounts to grants.

² The scope of our review included 833 projects. We reduced our universe since one project was a technical assistance grant and not included in the scope of our review.

³ *USDA Rural Development American Recovery and Reinvestment Act Implementation Plan*, dated May 9, 2009 (updated May 15, 2010).

In its plan, RUS set the following performance measures for the program:⁴

- Achieve 1.9 million customers receiving new or improved service;
- Reduce by 6 percent rural people's exposure to water-related health and safety hazards (based on projects funded that will remove an identified health and safety hazard);
- Allocate ten percent of project funding for investment in persistent poverty counties; and
- Save or create 56,000 jobs.

In its Implementation Plan, Rural Development notes that Recovery Act funding will be provided to eligible applicants under the existing WWD Loan and Grant program regulations. Rural Development also used the first of the four performance measures shown above to gauge the results of regular program operations. Rural Development added the other performance measures to be consistent with Recovery Act requirements.

Reviews of Recovery Act WWD Loans and Grants

Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds and provided \$22.5 million to the Office of Inspector General (OIG) for oversight and audit of USDA programs, grants, and activities funded by the Act.

OIG has completed two phases of audit work for RUS' WWD program, issuing three fast reports and two audit reports.⁵ OIG's Phase I audit identified two instances where RUS officials could enhance agency procedures for approving WWD loans and grants and target communities with the greatest need when allocating funds. Phase II disclosed that RUS should ensure the transparency and accountability requirements under the Recovery Act were followed, and reported an incident where a State office inappropriately funded a borrower's current project with unused funds from a previous project, as such funding conflicted with program requirements. In both of those audits, OIG made recommendations to the program to address the issues previously outlined. RUS agreed to our recommendations and has taken steps to address the issues.

Objectives

We initiated this audit to determine whether RUS developed and implemented performance measures for WWD loans and grants that effectively measure how RUS used those funds to achieve Recovery Act goals. Also, we sought to determine whether controls over WWD Recovery Act expenditures were adequate to ensure RUS spent Recovery Act funds as intended.

⁴ These performance measures were initially shown in the RUS 2009 implementation plan and were updated in 2010 to more accurately reflect 2010 funding changes.

⁵ Report 09601-0001-At was issued in 2010, while the phase II report (09703-0001-At) was issued in 2012.

Section 1: Unliquidated Grant Funds

Finding 1: RUS Needs to Improve Controls Over Unliquidated Grant Funds

A State Rural Development office did not deobligate remaining grant funds upon completion of a project and did not cancel the unliquidated funds for almost 2 years. Instead, the State office used those funds on a Recovery Act project obligated to the same borrower. This is similar to an issue reported in a previous audit.⁶ In that instance, we found that rather than deobligating unliquidated grant funds from a completed project, a State Rural Development office inappropriately funded a Recovery Act project with funds remaining from the former project. Both of these issues occurred due to misunderstandings by State officials regarding borrowers with multiple or phased WWD projects, and weaknesses in Rural Development's controls for monitoring and deobligating unliquidated grant funds. Because State officials considered two separate projects as a multi-phase project, in this instance, the agency improperly transferred \$158,252 from one project to another and a total of \$454,355 in grant funding remained inactive for a period of more than 2 years, while a backlog of other WWD projects waited for funding.

RUS regulations state that funds not needed to complete a project are to be deobligated.⁷ Those regulations also state that all grant funds remaining after a project has been completed should be cancelled⁸ and returned to the Department of the Treasury.⁹ Additionally, USDA regulations state that obligations with no activity for the most recent 12 months should be deobligated, unless there is a documented justification for the period of inactivity. Departmental regulations also require agencies to perform reviews of unliquidated obligations to properly report obligation balances, make funds available that otherwise would not be used, reduce the risk of misuse and theft of funds, and improve the Department of the Treasury's ability to forecast outlay and borrowing needs.¹⁰ In addition, Federal statutes require that fixed-appropriation loan and grant accounts shall be closed after 5 years, and any remaining balance in the account shall be canceled and no longer available for any purpose.¹¹

To assess controls over project expenditures where borrowers had multiple projects, OIG reviewed a sample of 11 borrowers and 30 projects, including a \$1,267,000 grant and \$624,000 loan made to the Board of Commissioners in Allegheny County, Maryland (the borrower). The loan and grant were part of a larger project called "Bowman's Addition." Rural Development and the borrower split the Bowman's Addition project into separate projects that could be completed independently. Rural Development obligated funding for the project called "Phase I" from the regular appropriation, prior to the announcement of Recovery Act funding. "Phase II" was obligated from Recovery Act money.

⁶ Audit report 09703-0001-At, *Rural Utilities Service's Controls over Water and Waste Disposal Loan and Grant Program for the Recovery Act* (July 2012).

⁷ 7 Code of Federal Regulations (CFR) 1780.44(e).

⁸ 7 CFR 1780.45(f).

⁹ *Office of Management and Budget Circular A-11*.

¹⁰ USDA Departmental Regulation 2230-001 – Reviews of Unliquidated Obligations 3.d. April 21, 2009.

¹¹ Title 31, Subtitle II, Chapter 15, Subchapter IV - USC 1552 (a) Procedures for appropriation accounts available for definite periods. January 3, 2012.

When the first project was completed in 2010, there was an unliquidated obligation of grant funds in the amount of \$454,355. Although RUS regulations require that obligated loan or grant funds not needed to complete the proposed project will be deobligated,¹² this did not occur. In July 2012, Rural Development officials identified the \$454,355 remaining from the first project when conducting reviews of obligations nearing the 5-year deadline for deobligation. Our review identified that when the borrower was notified of the upcoming deobligation of those remaining funds more than 2 years later, the borrower requested and received approval to use \$158,252 of those funds to pay for work completed on the Phase II project.¹³ On February 13, 2013, Rural Development notified OIG that the \$296,113 of grant funds in the Phase I account had been deobligated. Rural Development also indicated that the remaining balance will be deobligated by the end of March 2013.

Rural Development State officials reported that they authorized the use of grant funds remaining from the Phase I project for the Phase II project because the use was within the original scope of the overall project, as the underwriting and application was combined for both phases. However, given the separate funding obligations, the time interval between the obligations, the separate project budgets and contracts, and the different project scopes, the projects should have been regarded as separate. While RUS regulations allow for limited use of remaining funds within a project,¹⁴ they do not allow for the transfer of funds across projects.

RUS regulations regarding the deobligation of funds require that loan and grant funds should be canceled if they are not needed. However, the regulations do not specify when projects are deemed to be complete nor how soon after completion any remaining funds should be canceled. The lack of a stated timeframe allows State and area officials to hold a project's unliquidated funds at completion inactive for a period up to the 5-year deobligation mark, which delays the redistribution of funding to other projects in need. RUS should develop clearer guidance, so that State and area offices ensure a project that has reached completion is reviewed so that any unliquidated obligations are identified and redistributed to borrowers waiting for funding. To further emphasize the importance of making unliquidated obligations from completed projects available to others, we recommend that RUS conduct training with the staff who service WWD projects in order to ensure that they fully understand the guidance provided, can conduct the necessary reviews of unliquidated obligations, and make decisions on when funding should be deobligated, based on project completion. This would also allow RUS to ensure that a project's unliquidated obligations become available to others more quickly, rather than remaining inactive or being transferred to projects that already have fully-funded budgets.

Reviews of inactive grant funding can help to reveal if funds need to be released for use elsewhere. Rural Development officials acknowledged that the agency does not currently track project expenditures at the national level because the projects are serviced by the area offices.

¹² RUS instruction 1780.44(e).

¹³ RUS regulations also account for situations where additional funding is needed to complete a project. If the project were considered one large project and ran out of money, the borrower could apply for a cost overrun which is given priority in funding.

¹⁴ Any funds remaining after all costs incident to a project have been paid or provided for can be used for eligible loan and grant purposes, provided the use will not result in major changes to the facility and the purpose of the loan and grant remains the same. RUS instruction 1780.45(f).

However, an expenditure tracking tool could help Rural Development to detect funds that remain inactive after projects are completed, and would also allow Rural Development to identify trends in expenditures. If RUS were tracking project expenditures at the national office level, it is likely that officials would have seen that this project was inactive since June of 2010 and could have initiated a review prior to July 2012 on whether the remaining funds were still needed for the project.

RUS national officials stated that they have stepped up their efforts to make sure that obligations do not exceed 5 years without good reason by contacting State and area offices as unliquidated obligations reach that milestone to request a review of those funds. As a result, State and area officials were focused on ensuring that the Bowman's Addition project's unliquidated obligations be expended before they expired. Although the national officials' emphasis on meeting the 5-year deobligation mark encourages State officials to perform reviews of unliquidated obligations, it does not encourage those reviews to be conducted at any point prior to the potential expiration of the obligation.

Given that Rural Development currently has a backlog of projects waiting for funding, timely identification of inactive funds eligible for deobligation is crucial. By enhancing its project closeout procedures and monitoring of grant expenditures, Rural Development could strengthen its ability to fund a greater number of WWD projects timely.

Recommendation 1

Develop additional guidance and train staff on RUS definitions for projects, how to close obligations, and how to conduct unliquidated obligation reviews.

Agency Response

In its March 14, 2013, response RUS stated that they have and will continue to provide training regarding the use of remaining funds and the handling of unliquidated obligations. They also agreed to update their guidance and distribute that guidance to all national office and field staff. In a separate correspondence, RUS provided a completion date for these corrective actions of March 1, 2014.

OIG Position

We accept RUS' management decision for this recommendation.

Recommendation 2

Develop an expenditure tracking tool at the national office level that would allow RUS to better monitor projects that are inactive.

Agency Response

In its March 14, 2013, response RUS stated that they will develop the recommended tracking tool as funding permits to modify the Community Programs Application Process, the agency's loan processing system. In a separate correspondence, RUS provided a completion date for this corrective action of March 1, 2014.

OIG Position

We accept RUS' management decision for this recommendation.

Recommendation 3

Recover or deobligate the \$454,355 in grant funding remaining at the completion of Phase I and return to the Department of the Treasury.

Agency Response

In its March 14, 2013, response RUS stated that although they are of the opinion that the underwriting for the Bowman's Addition Project complies with the regulation, RUS will deobligate the grant funds as recommended. RUS notified OIG of a partial deobligation in the amount of \$296,113 on February 13, 2013. The additional remaining funds will be deobligated by the end of March 2013.

OIG Position

We accept RUS' management decision for this recommendation.

Scope and Methodology

Under the Recovery Act, RUS was allocated \$3.8 billion to fund WWD loans and grants in FYs 2009 and 2010. RUS obligated \$3.3 billion of the Recovery Act funding to 834 WWD projects.¹⁵ Our audit work focused on whether RUS accurately presented the results of Recovery Act funding, whether those measures were effective in addressing the primary goals of the Recovery Act, and whether controls over project expenditures were sufficient. We completed fieldwork at RUS' national office in Washington, D.C., from May to December 2012. We requested project files and supporting information from and contacted officials at State and area offices throughout the audit, but did not conduct site visits.

RUS provided us with the universe listing of 834 WWD projects funded by the Recovery Act. The listing included project name, description, location, area office, loan and grant amounts obligated and advanced, date of obligation, phase of project, estimated completion date, and percent complete. We removed one project from the audit universe, as it was a technical assistance grant and was not included in the scope of our review. To test data reliability of the universe listing, OIG's Data Analysis and Special Projects group recreated the query RUS utilized to extract the universe from Rural Development's data warehouse. Based on the review of this recreation, we concluded that the universe listing contained all WWD projects funded under the Recovery Act.

To test whether adequate controls were in place to ensure that Recovery Act funds were properly expended, we attempted to select a statistical sample of WWD project expenditures. However, we were unable to select a statistical sample using project expenditures as criteria because RUS' financial systems do not provide a complete accounting of project expenditure data. This is primarily due to the fact that RUS financial systems only track expenditures at the time they are paid by the Department of the Treasury. Given that this can be done either as they are incurred or as a lump payment to an interim financier, there are times when the amount reported as an expenditure by the financial system indicates that a project has zero expenditures because the Department of the Treasury has made no payment, but the interim financier may in fact have made payments that will be reimbursed by the Department of the Treasury at the time the loan closes. RUS relies on its area offices to maintain records of funds expended and to review those expenditures. Our efforts were further hampered by RUS' national and State offices not maintaining a record of expenditures for each project in the program. We attempted to pull the expenditure information from another database, but found that source to be unreliable.

As a result, we changed our audit methodology to focus on those expenditures incurred in projects selected during our Phase II audit.¹⁶ Projects in the Phase II sample were statistically selected using obligations as of the end of FY 2009 as criteria. During that phase, we reviewed the procedures for processing project expenditures, payments, and the area offices' oversight of

¹⁵ Rural Development's updated Implementation Plan (May 2010) anticipated the actual obligation of funds would be around \$3.3 billion due to a change in the subsidy rate between FYs 2009 and 2010 and reprogrammed loan amounts to grants.

¹⁶ During Phase II, we visited area offices, reviewed the project files for eligibility, and evaluated the internal control structure over project expenditures.

these processes and, based on those reviews, we assessed the control risk over expenditures as low. However, we were unable to test a sufficient amount of project expenditures during Phase II, given that many projects in the sample had no expenditures at the time we were conducting fieldwork.

The sample selected included 22 projects from 17 States, with obligations of approximately \$184.2 million. From this sample of projects, one project was not reviewed, due to an ongoing investigation by OIG's Office of Investigations, while two others were deobligated and had no expenditures to test. After reviewing 16 of the remaining 19 projects, we terminated expenditure testing, as those projects reviewed contained few errors and those errors did not indicate systematic control weaknesses. The 16 projects we did review were located in 12 States and represented obligations totaling approximately \$124 million (see exhibit B).

To further maximize our review of project expenditures, we reviewed Recovery Act borrowers with multiple projects to ensure unliquidated obligations from one project were not used as reserves for subsequent projects. Using data from Rural Development's data warehouse, we identified a universe of 55 borrowers with 121 different WWD projects. We reduced the universe of borrowers by removing:

- Projects from the State of Maine, since these projects were reviewed by RUS during the management decision process for the Phase II report;
- Borrowers with two projects where the dates of fund obligation were less than 60 days apart; and
- Projects identified as cost overruns from a prior project. RUS allows this use of funds when a project utilizes all RUS funding before completion.

This reduction narrowed the universe to 11 borrowers with 30 projects in 9 States (see exhibit C). Total obligations for these projects were \$156.8 million in Recovery Act funds. For each project, we reviewed general project information, expense summaries, underwriting documents from RUS' application processing system, and source documentation for other project funds received to determine whether RUS' controls prevented the transfer and use of unexpended grant funds to subsequent projects.

Finally, when testing controls over and the accuracy of performance reporting, we obtained source data from Rural Development's data warehouse on the accomplishments reported for the four performance measures reviewed. The data included each projects' area population, number of economic dwelling units, number of estimated jobs created or retained, whether the project addressed a water-related health or sanitary issue, and whether it was located in a persistent poverty county. We interviewed RUS officials about how the performance measures were computed and then re-calculated them to ensure accuracy and completeness. Additionally, for the projects in our sample selection for expenditure testing, we compared the accomplishments documented in the project file to the information from the data warehouse.

To accomplish our audit objectives we:

- Reviewed regulations, policies, procedures, and other guidance concerning the administration of the WWD loan and grant program, as well as the Recovery Act;
- Examined internal reports on internal control weaknesses and external audit reports related to the WWD program;
- Gained an understanding of Rural Development's computer information systems that Rural Development utilized for RUS WWD projects and reviewed the internal controls over those systems;
- Interviewed RUS national officials to identify the WWD performance measures implemented for the Recovery Act, determine how those measures were selected, their effectiveness in addressing Recovery Act goals, whether they were outcome or output based, and how they were calculated;
- Evaluated the control structure over the performance measure reporting process;
- Analyzed the performance measures and supporting data to determine whether they were accurately calculated and reported;
- Examined 16 WWD loan and grant files for expenditure testing; and
- Reviewed 30 projects from 11 borrowers to identify any inappropriate rollover of unexpended grant funds to other projects.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

CFR.....	Code of Federal Regulations
FY	Fiscal Year
OIG	Office of Inspector General
Recovery Act	American Recovery and Reinvestment Act of 2009
RUS.....	Rural Utilities Service
USDA.....	Department of Agriculture
WWD	Water and Waste Disposal

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	3	Unliquidated Grant Funds Remaining At Project Completion	\$454,355	Funds to be Put to Better Use
TOTAL			\$454,355	

The table above contains columns to identify the finding number, recommendation number, description of error, program dollar amount impacted, and OIG management tracking classification associated with the monetary results from the report's findings.

Exhibit B: Recovery Act Water and Waste Disposal Projects Reviewed

Projects OIG reviewed when assessing RUS' controls over Recovery Act expenditures.

Borrower	Project Name	State	Obligated Loan Amount	Obligated Grant Amount	Total Amount Obligated ¹⁷
Dubois, City of	City of Dubois	ID	\$675,000	\$289,000	\$964,000
Montezuma, Town of	Initial Sewage Collection	IN	4,788,000	754,000	5,542,000
Twin Lakes Regional Sewer District	Phase 4	IN	9,067,000	7,642,000	16,709,000
Garrison-Quincy-KY-O-Heights W. D.	Garrison Sewer Project	KY	798,000	429,500	1,227,500
Jonesville, Town of	Jonesville Water	LA	205,000	-	205,000
Farmington, Town of	2009 Tannery Brook	ME	131,000	370,000	501,000
Hancock, City of	Sewer Improvements	MI	2,092,000	1,908,000	4,000,000
Atchison County Wholesale Water Commission	Water Treatment Facility	MO	12,000,000	10,000,000	22,000,000
Clara Water Association, Inc.	2008 Distribution System	MS	555,800		555,800
Mt. Comfort Water Association, Inc.	Water FY2009	MS	942,000	682,000	1,624,000
North Central Rural Water Consortium II	Radar Hill Area	ND	3,019,900		3,019,900
Netarts Oceanside Sanitary District	Wastewater Treatment	OR	10,047,000	7,579,000	17,626,000
Hood River, City of	Water System Pipeline	OR	13,099,000	9,877,300	22,976,300
Shelton, City of	Sewer -WWTP	WA	20,379,000	4,734,750	25,113,750
Big Bend PSD	Wiggins and Browning	WV	505,000	1,295,000	1,800,000
War, City of	Phase III Water System	WV		180,300	180,300
TOTALS			\$78,303,700	\$45,740,850	\$124,044,550

¹⁷ Amounts obligated are as of September 30, 2010.

Exhibit C: Review of Borrowers With Multiple Recovery Act Projects

Projects OIG reviewed to determine whether RUS had controls to prevent the inappropriate rollover of unexpended grant funds between projects with the same borrower.

Borrower	State	Project Name	Loan Amount Obligated	Grant Amount Obligated	Total Obligations
1	DE	Johnsons Corner Sanitary	\$2,000,000	\$1,570,000	\$3,570,000
		Woodlands of Millsboro Sanitary Sewer District	90,000	566,000	656,000
		Pump Station 30	6,169,000		6,169,000
		Oak Orchard Expansion	5,582,000	2,999,847	8,581,847
		Inland Bays Regional	10,475,000		10,475,000
2	IL	Phase II	\$1,535,000	\$477,000	\$2,012,000
		Phase III	1,300,000	1,458,000	2,758,000
3	MD	Bowman's Addition	\$624,000	\$1,267,000	\$1,891,000
		Mt. Savage-Jennings	4,260,000		4,260,000
4	NY	Airport Road Extension 1	\$839,000	\$381,993	\$1,220,993
		Kingdom Road Extension 1	620,000	325,516	945,516
		CR 176/45	449,000	339,483	788,483
		Silk Road	630,000	457,866	1,087,866
5	PR	PRASA 163- Villa Taina/Boqueron	\$6,031,000	\$2,961,000	\$8,992,000
		PRASA 165- Aguadilla/Vista Verde	3,364,000	769,000	4,133,000
6	SC	Phase II and III S	\$2,088,000		\$2,088,000
		Phase I, Water Extension	2,830,000	2,571,000	5,401,000
		Orangeburg/Vance Water Main Extension	820,000	632,400	1,452,400
7	SC	Phase II	\$4,161,300		\$4,161,300
		Beulah Road	298,000	278,300	576,300

Borrower	State	Project Name	Loan Amount Obligated	Grant Amount Obligated	Total Obligations
8	SD	2009 Re-lining Project	\$352,000	\$220,278	\$572,278
		2010 Water Rehab Project	1,019,000	915,000	1,934,000
9	VA	Upper Norton Reserve	\$2,160,000	\$1,000,000	\$3,160,000
		Wastewater System R	1,297,000	3,889,000	5,186,000
10	VA	Exit 13 Sewer	\$1,579,000	\$1,000,000	\$2,579,000
		Small Water Line Replacement – Phase I	10,000,000		10,000,000
		Water Treatment Plant	26,580,000		26,580,000
		Whites Mill Road	3,000,000		3,000,000
11	WA	Sewer – WWTP	\$20,379,000	\$4,734,750	\$25,113,750
		Basin 5 I & I Improvements	7,546,000		7,546,000
TOTAL OBLIGATIONS			\$128,077,300	\$28,813,432	\$156,890,733

**USDA'S
RURAL UTILITIES SERVICE'S
RESPONSE TO AUDIT REPORT**



United States Department of Agriculture
Rural Development

March 14, 2013

TO: Gil Harden
Assistant Inspector General for Audit

THROUGH: John Charles Padalino /s/ John Padalino
Acting Administrator
Rural Utilities Service

FROM: Dallas Tonsager /s/ Doug O'Brien for Dallas Tonsager
Under Secretary
Rural Development

SUBJECT: Rural Utilities Service Controls Over Recovery Act Water and Waste
Loans and Grants Expenditures and Performance Measures
09703-0001-22

Thank you for your Draft Report dated February 13, 2013 regarding your oversight activities related to the water and waste disposal system program implementation of the funding received through the American Recovery and Reinvestment Act of 2009, P.L. 111-5, (Recovery Act). We are pleased that the Report found that RUS designed and implemented performance measures for WWD loans and grants that effectively measured how RUS used Recovery Act funds to achieve Recovery Act goals. Further we are pleased that OIG found that controls over project expenditures were reasonably effective to ensure that RUS used Recovery Act funds to complete projects as intended.

We recognize that the report includes one finding regarding the use of remaining grant funding in one project in Delaware. This memorandum will serve as our reply to your recommendations related to that finding.

In the finding, OIG asserts that RUS identified a borrower with multiple Water and Waste Disposal projects that improperly transferred grant funding from one completed project to another project, which is prohibited. The report likens this situation to the one instance in a prior OIG ARRA Report regarding an improper roll-over of funds to a project in Maine. As noted in the current OIG report, the Agency does not agree that the situations are alike, but that in this case, the underwriting is such that it complies with the regulation.

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In this case, the project, although subsequent obligations are labeled by phase, is considered a single project, with multiple obligations related to on underwriting and one applicant. Neither the regulation nor the statute prohibits the obligation of subsequent loans to complete a project. However, the project ultimately benefited from the competitive bidding environment, coming in under budget and eliminating the need for the funds.

Recommendation 1

Develop additional guidance and train staff on RUS definitions for projects, how to close obligations, and the proper way to conduct unliquidated obligation reviews.

Agency Response

The agency has, and will continue to provide training regarding the use of remaining funds and the handling of unliquidated obligations. We will update our guidance and distribute that guidance to all national office and field staff.

Recommendation 2

Develop an expenditure tracking tool at the national office level that would allow RUS to better monitor projects that are inactive.

Agency Response

The Agency will develop the recommended tracking tool as funding permits to modify CPAP, the Agency's loan processing system.

Recommendation 3

Recover or deobligate the \$454,355 in grant funding remaining at the completion of Phase I and return to the Department of the Treasury.

Agency Response

Although the Agency is of the opinion that the underwriting for the Bowman's Addition Project (applicant: Allegany County Commissioners) complies with the regulation, the Agency will deobligate the grant funds as recommended. Please note that on February 13, 2013 the Agency notified OIG of a deobligation on February 11, 2013 of \$296,113.16 from the Allegany County Commissioners project. Additional funds will be deobligated in March.

Conclusion

Rural Development is committed to administering the Water and Waste Disposal Loan and Grant Program effectively and to ensure that funds are appropriately utilized pursuant to statute and regulation. Again, we are pleased with your general finding that our internal controls are adequately designed and operating. We will work to obtain funding for the tracking tool, deobligate the recommended funds and enhance our staff guidance as necessary to improve delivery of the program.

Information copies of this report have been distributed to:

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