



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Millions of Federal Dollars Remain for Colonias Projects

Report No. 08-P-0184

June 23, 2008



Report Contributors: Andrés Calderón
 Randy Holthaus

Abbreviations

Board	Texas Water Development Board
CWTAP	Colonias Wastewater Treatment Assistance Program
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General

Cover photo: Construction of a wastewater treatment plant in Tornillo, Texas, funded through the Colonias Wastewater Treatment Assistance Program (photo courtesy of EPA Region 6)



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted an audit of the Colonias Wastewater Treatment Assistance Program (CWTAP) because of the large unliquidated obligation balance in the program almost a decade after the last grant had been awarded. Our audit objective was: Has the U.S. Environmental Protection Agency (EPA) provided the oversight necessary to ensure that the Texas Water Development Board manages CWTAP grants so that funds are drawn properly and projects are completed on time?

Background

From Fiscal Years 1993 through 1999, EPA awarded assistance agreements (grants) totaling \$300 million to the Texas Water Development Board for water infrastructure improvements along the border in poor, under-developed, unincorporated areas called colonias.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:
www.epa.gov/oig/reports/2008/20080623-08-P-0184.pdf

Millions of Federal Dollars Remain for Colonias Projects

What We Found

Nearly 10 years after EPA Region 6 awarded the last CWTAP grant to the Texas Water Development Board (the Board), \$78 million still has not been spent. The Region has taken some positive steps to address unliquidated obligations in the CWTAP, such as working with the Board to establish a schedule for using the remaining funds. However, Region 6's oversight of the program has been hindered because work plans lacked project details and operating agreements did not specify corrective actions.

If Region 6 does not improve its oversight of the program, the funds will probably not be fully spent by the current CWTAP grant fund drawdown projection of 2010. Every delay in disbursing CWTAP funds reduces the purchasing power of those grant dollars and delays needed improvements in public health and quality of life.

EPA has taken action to address similar issues with more recent grants awarded under the current U.S.-Mexico Border Program. In August 2007, the Office of the Chief Financial Officer issued a policy to address funds administration and provide guidance on appropriate monitoring targets. The goal of this policy is to optimize project completion rates, clarify program oversight, and reduce unliquidated balances related to the grant program. EPA needs to adopt a similar process for the CWTAP program, to ensure that project delays will not further delay disbursing federal funds and completion of projects.

What We Recommend

We recommend that the Regional Administrator for Region 6:

1. Amend the workplans and/or operating agreements for the open CWTAP grants to include specific projects, schedules, and dollar amounts.
2. Develop and implement a policy, similar to what is contained in the Office of the Chief Financial Officer's 2007 EPA Policy for the U.S.-Mexico Border Program, which specifies a process for taking corrective actions when projects are delayed.

EPA concurred with our recommendations and provided timeframes for taking corrective actions.



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

OFFICE OF
INSPECTOR GENERAL

June 23, 2008

MEMORANDUM

SUBJECT: Millions of Federal Dollars Remain for Colonias Projects
Report No. 08-P-0184

FROM: Melissa M. Heist *Melissa M. Heist*
Assistant Inspector General for Audit

TO: Richard Greene
Regional Administrator, Region 6

This is the final report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This audit report contains findings that describe problems the OIG has identified and corrective actions that the OIG recommends. This audit report represents the opinion of the OIG and the findings contained in this report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established audit resolution procedures. We would like to acknowledge the cooperation and assistance provided by your staff during the audit.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$90,169.

Action Required

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. You should track progress of your corrective actions in the Management Audit Tracking System. In addition, we request that you provide us with the amended workplans and the written agreement with the Board as you complete the corrective actions.

If you or your staff have any questions regarding this report, please contact me at 202-566-0899 or heist.melissa@epa.gov; or Janet Kasper, Director, Assistance Agreement Audits, at 312-886-3059 or kasper.janet@epa.gov.

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Chapter 1

Introduction

Purpose

We conducted an audit of the Colonias Wastewater Treatment Assistance Program (CWTAP) because of a large unliquidated obligation balance in the program. Our audit objective was to answer the following question: “Has EPA provided the oversight necessary to ensure that the Texas Water Development Board manages CWTAP grants so that funds are drawn properly and projects are completed on time?”

Background

EPA Region 6 awarded five assistance agreements (grants) totaling \$300 million to the Texas Water Development Board (the Board) under CWTAP between Fiscal Years (FYs) 1993 through 1999. The grant funds, combined with State funds, were to be used for constructing water¹ infrastructure projects along the Texas border with Mexico in poor, underdeveloped areas called colonias. Colonias projects can also be financed through EPA’s current U.S.-Mexico Border program.

A colonia is a residential area along the border that may lack some of the most basic living necessities, such as drinking water and sewer systems, electricity, paved roads, and safe and sanitary housing. Outhouses and septic tanks are often the only available means of sewage disposal. Pollutants from both the United States and Mexico contaminate shared waters due to inadequate sewage treatment. The lack of wastewater infrastructure and access to potable water is of great concern because of potentially serious consequences for public health and the effect on quality of life.

As of September 2007, 41 colonias projects were completed or still under construction (see Table 1.1). When the remaining projects are completed, EPA projects adequate water facilities for more than 150,000 residents.

Table 1.1: Status of Colonias Projects

Project Status	No. of Projects	Colonias Affected	Residents Affected
Constructed and operating	24	153	72,314
Constructed and in close-out	5	32	14,633
Under construction	12	220	69,813
Total	41	405	156,760

Source: EPA Region 6 as submitted to the Office of the Chief Financial Officer (data as of September 2007).

¹ For purposes of this report, “water” includes drinking water and wastewater.

Noteworthy Achievements

Region 6 has been working with the Board on unliquidated obligations² since April 2006. Region 6 met with the Board to discuss this issue on several occasions and established a schedule for using the grant funds. In December 2007, the Region 6 Director for the Water Quality Protection Division sent a letter to the Board recommending a goal of \$27.4 million in grant disbursements during FY 2008.

Now, Region 6, the Office of Water, and the Office of the Chief Financial Officer (OCFO) are working together to address unliquidated obligations. Region 6 and the Office of Water prepared a report for OCFO on Texas colonias grants providing information on (1) all completed and ongoing projects, associated costs (EPA and non-EPA), project start and completion dates, and disbursed amounts; (2) all non-construction related expenses, recipients of non-construction funds, and a justification for each non-construction expenditure; and (3) management initiatives and oversight processes. OCFO received this report on November 23, 2007, and the first monthly report on February 28, 2008.

Scope and Methodology

To answer our objective, we reviewed EPA's CWTAP grants to the Board, reviewed the amounts paid to the Board for grant expenses, and interviewed EPA and Board managers and staff members. We visited Board offices in Austin, Texas, in September 2007, and reviewed a sample of project files. We performed our work in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. We conducted our field work from September to December 2007. For additional details on scope and methodology, see Appendix A.

² Unliquidated obligations represent the difference between the amount obligated in the federal grants and the total amount of outlays against those obligations.

Chapter 2

Region 6 Needs to Improve the Timeliness of CWTAP Fund Disbursements

Nearly 10 years after EPA Region 6 awarded the last CWTAP grant to the Texas Water Development Board (the Board), \$78 million still has not been spent. The Region has taken some positive steps to address unliquidated obligations in the CWTAP, such as working with the Board to establish a schedule for using the remaining funds. However, Region 6's oversight of the program has been hindered because work plans lacked project details and operating agreements did not specify corrective actions. If Region 6 does not improve its oversight of the program, the funds will probably not be fully spent by the current CWTAP grant fund drawdown³ projection of 2010. Every delay in disbursing CWTAP funds reduces the purchasing power of those grant dollars and delays needed improvements in public health and quality of life.

CWTAP Funds Remain Undisbursed

Between FYs 1993 and 1999, EPA awarded five grants totaling \$300 million to the Board. Region 6 and Board staff stated that the Board used the first-in first-out method for drawing federal funds. This means that the Board drew down funds for work completed on projects from the oldest grant first before drawing down any funds from the next oldest grant. As a result, none of the construction funds associated with the last CWTAP grant awarded (C480001-07) have been spent. The only drawdowns for the FY 1999 grant were for the \$2 million EPA allowed for administrative expenses. As of December 31, 2007, the Board had not disbursed \$78,252,634 in CWTAP funds. Table 2.1 provides a summary of CWTAP funds not disbursed, while Appendix B provide further details.

Table 2.1: CWTAP Funds Not Disbursed

Grant Number	Project Period	Unliquidated Balance
C480001-05	10/01/1996 – 09/30/2008	\$15,019,505.69
C480001-06	01/01/1999 – 12/31/2008	\$15,233,128.11
C480001-07	01/01/1999 – 12/31/2008	\$48,000,000.00
Total		\$78,252,633.80

Source: EPA's Integrated Financial Management System

³ The term "drawdown" represents the money EPA has paid to the Board for disbursements under the grants.

Region 6 and the Board Cite Various Reasons for Delaying Disbursements

Region 6 and Board managers and staff members cited many factors for the slow pace of disbursements:

- Slow adoption of model subdivision rules.
- Large increases in construction costs between the time projects were designed and communities were ready to break ground.
- Complexities of working with multiple funding sources.
- Poorly organized colonias tend to lack access to resources.

According to Region 6 and Board staff, the Board was using State funds first to pay for wastewater projects, and then using federal grant funds. This method contributed to delays in using federal funds. In 2006, Region 6 instructed the Board to spend federal money committed to projects before spending State funds to increase the disbursement rate.

CWTAP Grant Disbursement Rates and Schedules Prone to Delay

According to a Region 6 Branch Chief, since April 2006, Region 6 has increased oversight of the disbursement rate of the CWTAP program because of the pressures within the Agency to address unliquidated obligations. In August 2006, the Director of Region 6's Water Quality Protection Division and members of his staff visited the Board to discuss the unliquidated obligations issue in the CWTAP and other funds. As a result of that visit, the Board issued a report on December 7, 2006, entitled *Comprehensive Plan – Addressing Unliquidated Obligations*. This plan was intended to address the unliquidated obligations issue in the CWTAP and other EPA-funded programs. The plan contained a disbursement schedule for the CWTAP, which showed that all of the funds would be disbursed by December 31, 2008.

Since issuing the plan, the Board has revised the funds disbursement schedule twice. The March 2007 schedule showed that all of the CWTAP funds should be disbursed by March 31, 2010. Three months later, in June 2007, the Board revised the schedule again to show that all of the CWTAP funds would be disbursed by June 30, 2010. The Board revised the schedule because the pace of drawdowns did not keep up with projections, and since the June 2007 revision, they still have not kept up. The schedule projected an unliquidated balance of \$72.3 million on December 31, 2007, but the unliquidated obligation balance on December 31, 2007, was actually \$78.3 million – a \$6 million difference. The schedule will have to be revised again if the pace of actual drawdowns continues to not keep up with projections.

At the end of April 2006, the unliquidated balance was \$104 million. From May 2006 through December 2007 (20 months), nearly \$26 million had been

disbursed. At that pace, it would take another 5 years to spend the remaining amount of money (i.e., until December 2012), thereby missing the current projected deadline of June 2010.

Grant Workplans Missing Project Details

Region 6's oversight of the CWTAP grants was hindered by not having detailed workplans. Office of Management and Budget Circular A-102 states that in program narrative statements for grant applications, agencies are to require recipients to define the objectives and need for assistance, establish expected completion dates, and identify costs. The CWTAP workplan described the purpose of the funds and what projects would be eligible for funding. The workplan referenced an operating agreement that included specific requirements regarding eligible use of funds, grant payments, reporting requirements, fiscal controls, and oversight. Neither the workplan nor operating agreement identified specific projects that would be funded or schedules for completing the projects. Without that information, EPA did not have a basis for evaluating progress the Board made in completing projects. The Board provides information on project status, completion dates, and disbursements in monthly status reports to Region 6, but the information is not included in the workplans.

Corrective Actions for Delays Not Specified

Region 6 did not take action when programmatic conditions related to disbursements were not met in the last CWTAP grant awarded (Grant Number C480001-07). That grant's award document included a schedule for disbursing funds. The award document identified, by quarter of the fiscal year, the amount of funds the Board was expected to draw down under the grant. The Region 6 project officer stated that he reviewed monthly reports to assess the progress of projects and drawdowns. However, while the grant was awarded in 1998, it was not until 2006 that EPA began to address noncompliance with the award condition on drawdown of funds.

Region 6 and the Board have set goals for disbursing the remaining funds for the grants, but EPA has not imposed any corrective action plans on the Board when delays occur. The Region 6 Director of the Water Quality Protection Division stated that when goals are not met then EPA must change its oversight. The Board established a plan for using funds in 2006, and revised that plan twice in 2007. No mention was made of what actions would be taken if the disbursement schedule was not met. Region 6 issued a letter to the Board in December 2007 with a goal of \$27.4 million in disbursements during FY 2008, but it did not identify what would happen if that goal was not met.

EPA has taken action to address similar issues with grants awarded for the current U.S.-Mexico Border Program. In August 2007, EPA issued a policy that was designed to address funds administration and provide guidance on appropriate

monitoring targets to optimize project completion rates, clarify program oversight, and reduce unliquidated balances related to the grant program. The policy defined stalled projects and required that corrective action plans be developed, including:

- (1) construction milestones leading to project completion,
- (2) projected disbursements associated with those milestones,
- (3) quantification of the benefited population,
- (4) the number of new drinking water and wastewater connections supported by the project, and
- (5) potential disruptions to the completion schedule and mitigation strategies.

EPA needs to adopt a similar process for the CWTAP program to ensure that project delays will not further delay disbursement of federal funds and completion of projects.

Recommendations

We recommend that the Regional Administrator for Region 6:

1. Amend the workplans and/or operating agreements for the open CWTAP grants to include specific projects, schedules, and dollar amounts.
2. Develop and implement a policy, similar to what is contained in the OCFO's 2007 EPA Policy for the U.S.-Mexico Border Program, which specifies a process for taking corrective actions when projects are delayed.

Agency Response and OIG Comment

EPA Region 6 concurred with both recommendations. Region 6 stated that it was going to meet with Board staff to amend the workplans for the remaining three CWTAP grants with unspent funds to specify projects, provide funding amounts, and establish schedules. Region 6 also pledged to develop an agreement with the Board establishing formal measures for project progress and completion. Region 6 plans to complete both tasks within 90 days of the issuance of this final audit report. The full text of the Agency response is in Appendix C.

We agree with Region 6's proposed corrective actions and timeframes for completing them.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	6	Amend the workplans and/or operating agreements for the open CWTAP grants to include specific projects, schedules, and dollar amounts.	O	Regional Administrator, Region 6	9/22/08		
2	6	Develop and implement a policy, similar to what is contained in the OCFO's 2007 EPA Policy for the U.S.-Mexico Border Program, which specifies a process for taking corrective actions when projects are delayed.	O	Regional Administrator, Region 6	9/22/08		

¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A***Details on Scope and Methodology***

We performed our work in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. These 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed audit field work from September to December 2007. We analyzed the laws, regulations, and guidance pertaining to grants awarded to the Board. We reviewed internal controls related to planning, organizing, directing, and controlling program operations. We also reviewed controls for measuring, reporting, and monitoring program performance. We gained an understanding of internal controls through performing the procedures outlined below.

- We interviewed managers and staff members at EPA Region 6 in Dallas, Texas. We assessed the Performance Standards for the project officer and grants specialist to determine the tasks they were responsible for related to the program. We reviewed documentation of Region 6 Water Quality Protection Division managers and staff members communicating with the Board on the importance of quickening the pace of drawdowns from the CWTAP grants. We reviewed the Texas Colonias Grants Report (November 21, 2007, version) submitted to the OCFO.
- With regard to the grants, we examined EPA's grant files, and reviewed award documents, amendments, work plans, decision memoranda, and operating agreements. We researched the funds available for these grants through EPA's Integrated Grants Management System, Integrated Financial Management System, and various grant award documents.
- We visited the State office in Austin, Texas, interviewed Board personnel, and reviewed a judgmental sample of project files, an internal auditor report, and the Board's outlay retrieval procedure. The Board appears to have adequate controls in place to mitigate the risk of inappropriate drawdowns. During our visit, we saw evidence related to how the Board draws down funds, including an outlay checklist and a payments routing slip. We also saw multiple signatures from personnel in different departments on documents, such as contract initiation forms and grant closing information sheets.

Appendix B***Unliquidated Balance in the CWTAP***

From FYs 1993 through 1999, EPA awarded five grants to the Board for the CWTAP totaling \$300 million. The project period represents the amount of time EPA expects the recipient will need to complete the projects. The term “drawdown” represents the money EPA has paid to the Board for disbursements under the grants. The unliquidated balance is the money EPA awarded to the Board but the Board has not spent as of December 31, 2007 (that is, the difference between the award amount and the drawdowns).

Grant Number	Award Date	Project Period	Award Amount	Drawdowns (as of 12/31/2007)	Unliquidated Balance (as of 12/31/2007)
C480001-02	12/22/92	12/22/1992 – 09/30/2005	\$50,000,000	\$50,000,000	\$0
C480001-04	01/20/95	02/01/1995 – 09/30/2007	\$100,000,000	\$100,000,000	\$0
C480001-05	03/05/96	10/01/1996 – 09/30/2008	\$50,000,000	\$34,980,494.31	\$15,019,505.69
C480001-06	12/18/98	01/01/1999 – 12/31/2008	\$50,000,000	\$34,766,871.89	\$15,233,128.11
C480001-07	12/18/98	01/01/1999 – 12/31/2008	\$50,000,000	\$2,000,000	\$48,000,000
Totals			\$300,000,000	\$221,747,366.20	\$78,252,633.80

Source: EPA's Integrated Financial Management System

Appendix C***Agency Response***

May 28, 2008

MEMORANDUM

SUBJECT: Draft Audit Report (4/28/2008):
Millions of Federal Dollars Remain For Colonias Projects
Assignment No. 2007-0990

FROM: Richard E. Greene
Regional Administrator (6RA)

TO: Janet Kasper, Director of Assistance Agreements Audits
Office of Inspector General (IA-13J)

Thank you for providing the opportunity to comment on the Office of Inspector General's (OIG) *Draft Audit Report: Millions of Federal Dollars Remain For Colonias Projects* (4/28/2008). We appreciate the OIG's acknowledgement of program achievements in the draft audit report. Attached please find our response to the draft audit report recommendations.

Should you have any questions regarding these comments, please contact Miguel I. Flores, Water Quality Protection Division Director at (214) 665-7101, or have your staff contact Susan Spalding at (214) 665-8022.

Attachment

Response to Recommendations Prepared by Region 6 Water Quality Protection Division***OIG Audit Report: Millions of Federal Dollars Remain for Colonias Projects
April 28, 2008*****Proposed OIG Recommendations:**

1. Amend the workplans and/or operating agreements for the open CWTAP grants to include specific projects, schedules, and dollar amounts.

Action Official: Region 6 Administrator

Response: Concur. Region 6 staff has scheduled a meeting with the Texas Water Development Board (TWDB) staff on May 29, 2008 to initiate coordination in our effort to amend the workplans for the three active grants CWTAP III, IV and V. The workplans and/or operating agreements will be revised to identify specific projects, funding amounts and schedules for each of these three active grants.

Timeframe for Implementation: Region 6 will implement this recommendation within 90 days from issuance of the final report.

2. Develop and implement a policy, similar to what is contained in the OCFO's 2007 EPA Policy for the U.S.-Mexico Border Program, which specifies a process for tracking corrective actions when projects are delayed.

Action Official: Region 6 Administrator

Response: Concur. Region 6 agrees that preparation of such an agreement will benefit the program in its expeditious use of CWTAP funding and implementation to complete active projects under construction. Region 6 staff has scheduled a meeting with the Texas Water Development Board (TWDB) staff on May 29, 2008 to discuss and draft an agreement that will identify necessary measures to ensure timely project execution, project completion and minimize project delays.

Timeframe for Implementation: Region 6 will implement this recommendation within 90 days from issuance of the final report.

Appendix D

Distribution

Office of the Administrator
Regional Administrator, Region 6
Deputy Director, Office of Wastewater Management, Office of Water
Director, Water Quality Protection Division, Region 6
Chief, Assistance Programs Branch, Water Quality Protection Division, Region 6
Agency Follow-up Official (the CFO)
Agency Follow-up Coordinator
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Audit Follow-up Coordinator, Region 6
Audit Follow-up Coordinator, Office of Water
Office of General Counsel
Deputy Inspector General