



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **EPA Should Reduce Unliquidated Obligations Under Expense Reimbursement Grants**

**11-P-0228**

**May 16, 2011**

## Report Contributors:

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## Abbreviations

DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
ERG	Expense Reimbursement Grant
GDNR	Georgia Department of Natural Resources
NCDEHNR	North Carolina Department of Environment, Health, and Natural Resources
OIG	Office of Inspector General
SDWA	Safe Drinking Water Act
WDNR	Wisconsin Department of Natural Resources

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# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

The U.S. Environmental Protection Agency (EPA) oversees water program assistance agreements. The purpose of this audit was to determine whether EPA has adequately monitored obligations on operator certification expense reimbursement grants (ERGs). Our objectives were to determine: (1) the status of utilization of the ERG funds, (2) impediments recipients faced in utilizing the funds and what EPA has done to facilitate reaching the target of expending ERG funds by December 2012, and (3) the amount of ERG dollars that can be deobligated.

## Background

EPA achieves clean and safe water goals by providing funds through assistance agreements to states, local governments, and tribes under the water program. To comply with the provisions of the Safe Drinking Water Act, EPA awarded operator certification ERGs to states.

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

The full report is at:  
[www.epa.gov/oig/reports/2011/20110516-11-P-0228.pdf](http://www.epa.gov/oig/reports/2011/20110516-11-P-0228.pdf)

## ***EPA Should Reduce Unliquidated Obligations Under Expense Reimbursement Grants***

### **What We Found**

We identified \$6.6 million of potentially unneeded funds that could have been deobligated for three ERGs awarded by EPA Regions 4 and 5 (\$3.3 million for Georgia, \$2.3 million for North Carolina, and \$1.0 million for Wisconsin). Region 4 deobligated over \$3.3 million in unneeded funds from the Georgia ERG and closed the grant in March 2011. According to Region 4, North Carolina signed an amendment on March 21, 2011, to extend the project period end date to January 1, 2012, to allow it to use the remaining \$2.3 million. Region 5 deobligated about \$2.2 million from the Wisconsin grant in February 2011. Region 5 responded that it extended the grant ending period from June 30, 2011, to December 31, 2012, to allow Wisconsin to use the remaining funds.

Since EPA began awarding ERG funds in 2001, we found that states are not adequately utilizing ERG funds to provide training and certification to water system operators in accordance with the requirements of the operator training and certification program. States faced numerous impediments in spending the funds, such as staff shortages, global recession, hiring freezes, higher-priority water projects, and contractors not completing as much work as initially proposed.

### **What We Recommend**

We recommend that the Regional Administrator, Region 4, direct the region's Water Protection Division Director to deobligate the \$3.3 million of unneeded funds for Georgia and monitor North Carolina's spending of the \$2.3 million of remaining funds through the end of the grant period and deobligate any unused funds. We also recommend that the Regional Administrator, Region 5, direct that region's Water Protection Division Director to continually monitor Wisconsin's spending of the remaining funds through the end of the grant period and deobligate any unused funds. While the regions responded that they disagreed with our recommendations, Region 5 did deobligate \$2.2 million (Wisconsin) and Region 4 did deobligate \$3.3 million (Georgia). However, Region 4 did not deobligate \$2.3 million (North Carolina) as the OIG recommended.



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

THE INSPECTOR GENERAL

May 16, 2011

**MEMORANDUM**

**SUBJECT:** EPA Should Reduce Unliquidated Obligations Under  
Expense Reimbursement Grants  
Report No. 11-P-0228

**FROM:** Arthur A. Elkins, Jr.   
Inspector General

**TO:** Gwendolyn Keyes Fleming  
Regional Administrator, Region 4

Susan Hedman  
Regional Administrator, Region 5

This is our report on unliquidated obligations under water program assistance agreements conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position on the subjects reported. Final determination on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated direct labor and travel costs for this report are \$186,391.

**Action Required**

Recommendation 2, addressed to the Regional Administrator, Region 5, is in a closed status for reporting purposes; therefore, that Regional Administrator does not need to respond further to this report. Recommendation 1, addressed to the Regional Administrator, Region 4, is still in an open status. Therefore, in accordance with EPA Manual 2750, the Regional Administrator, Region 4, is required to provide a written response to the findings and recommendations in this report within 90 calendar days of the report date. The response should include a corrective actions plan for agreed-upon actions, including milestone dates. The response will be posted on the OIG's public website, along with our memorandum commenting on the response. The response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of

the Rehabilitation Act of 1973, as amended. The final response should not contain data that should not be released to the public; if the response contains such data, the data for redaction or removal should be identified. We have no objections to the further release of this report to the public. We will post this report to our website at <http://www.epa.gov/oig>.

If you or your staff, have any questions regarding this report, please contact Paul Curtis at (202) 566-2523 or [curtis.paul@epa.gov](mailto:curtis.paul@epa.gov), or Meg Hiatt at (513) 487-2366 or [hiatt.margaret@epa.gov](mailto:hiatt.margaret@epa.gov).

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## Purpose

The purpose of this audit was to determine whether the U.S. Environmental Protection Agency (EPA) has adequately monitored obligations on operator certification expense reimbursement grants (ERGs). Our objectives were to answer the following questions:

- What is the status of utilization of the ERG funds?
- Are there impediments that recipients face in utilizing the funds and what has EPA done to facilitate reaching the target of expending ERG funds by December 2012?
- Are there ERG dollars that can be deobligated?

## Background

Section 1419 of the Safe Drinking Water Act (SDWA), 42 U.S.C. § 300g-8, provides that EPA shall reimburse the states through grants for the costs of training and certification of persons operating community and nontransient noncommunity water systems serving 3,300 persons or less. The SDWA requires states to adopt and implement a program for operator certification or face having 20 percent of their Drinking Water State Revolving Funds (DWSRF) withheld.

Under ERGs awarded to states, EPA provided reimbursement for training and certification costs of persons operating community and nontransient noncommunity water systems serving 3,300 persons or fewer that are required to undergo training pursuant to operator certification final guidelines. Each state was to receive an amount sufficient to cover the reasonable costs for training all such operators. EPA determined the amount each state received to cover the reasonable costs for training. Pursuant to 42 U.S.C. § 300g-8, the grants are first to be used to provide reimbursement for training and certification costs of persons operating community and nontransient noncommunity water systems serving 3,300 persons or fewer; when a state has been reimbursed all such costs, the state might, after giving notice to the EPA Administrator, use any remaining funds from the grant for any of the other purposes authorized for capitalization grants under the DWSRF. In using the remaining funds for the DWSRF, the state would have to provide 20 percent in matching funds. See 42 U.S.C. § 300j-12.

The total potential grant amount that EPA estimated was \$134,330,540. EPA determined that 65,209 water systems constituted the inventory of eligible systems, based on the Safe Drinking Water Information System inventory as of July 2000. To allocate the funds, EPA developed percentages based on the ratio of each state's number of eligible systems to the total of 65,209 systems.

Since the award of the ERGs, EPA has become aware of the length of time some of the grants have been outstanding. EPA awarded some of the grants from September 2001 through August 2004. On March 10, 2009, the Director,

Drinking Water Protection Division, Office of Water, issued a memorandum to the regional Drinking Water Program Managers setting an end date for the ERGs. The Director noted that some of the grants had been outstanding for 8 years. In consultation with regional offices, the Director established December 2012 as the project end date for the grants.

## Scope and Methodology

We conducted our audit from January 21, 2010, to March 11, 2011, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

We selected for review 19 ERGs awarded by the following regions:

- Region 2 (grants to New Jersey, New York, Puerto Rico, and U.S. Virgin Islands)
- Region 3 (grants to Maryland and West Virginia)
- Region 4 (grants to Georgia, Kentucky, Mississippi, North Carolina, and Tennessee)
- Region 5 (grants to Illinois, Indiana, Michigan, Ohio, and Wisconsin)
- Region 9 (grants to Arizona, California, and Nevada)

We selected our samples based on the largest percent and amount of unliquidated obligations. The sample included ERGs from regions whose unliquidated obligations were at least 10 percent of the total unliquidated obligation amount for all open ERGs. We also selected Region 3 because of concerns over the ERG grants the project officer expressed during the audit of unliquidated obligations under water program agreements. We interviewed EPA Water Protection Division project officers, ERG technical specialists, and state/territory officials for the 19 agreements reviewed. We reviewed project files (e.g., awards, amendments, work plans, and annual plans) obtained from EPA program and state/territory officials. Appendix A contains further details on our scope and methodology.

## Results of Review

We identified \$6.6 million of potentially unneeded funds that could have been deobligated for three ERGs awarded by EPA Regions 4 and 5 (\$3.3 million for Georgia, \$2.3 million for North Carolina, and \$1.0 million for Wisconsin). As a result:

- Region 4 deobligated over \$3.3 million in unneeded funds from the Georgia ERG and closed the grant in March 2011. According to Region 4,

North Carolina signed an amendment on March 21, 2011, to extend the project period end date to January 1, 2012, to allow them to use the remaining \$2.3 million.

- Region 5 deobligated about \$2.2 million from the Wisconsin grant in February 2011 with about \$600,000 remaining. Region 5 responded that it extended the grant ending period from June 30, 2011, to December 31, 2012, to allow Wisconsin to use the remaining funds.

Since EPA began awarding ERG funds in 2001, many recipients have made minimal expense reimbursements for training and certification expenses for water system operators. We found that states are not adequately utilizing ERG funds to provide training and certification to water system operators in accordance with the requirements of the operator training and certification program. States faced numerous impediments in spending the funds, such as staff shortages, global recession, hiring freezes, higher priority water projects, and underperforming contractors.

According to EPA's *Final Additions to the Final Guidelines for the Certification and Recertification of the Operators of Community and Nontransient Noncommunity Public Water Systems* (Federal Register/Vol. 66, No. 75, April 18, 2001), "After a state has reimbursed all costs pursuant to section 1419(d)(1), the state may, after notice to the Administrator of EPA, use any remaining funds from the grant for any of the other purposes authorized for capitalization grants under section 1452 of the SDWA."

Details on what we found by state follow.

#### ***Georgia (in Region 4)***

We determined that the Georgia Department of Natural Resources (GDNR) had \$3.3 million of unliquidated obligations remaining on its ERG available for deobligation as of November 18, 2010. EPA awarded the ERG grant to GDNR on April 29, 2003, and the project period ends June 30, 2011. GDNR experienced delays in spending ERG funds due to staffing shortages (an unfilled vacancy in the grant assistant position). We found that GDNR has spent a total of \$280,000 under its operator training and certification program out of \$3.6 million awarded. After we issued our draft report on March 11, 2011, Region 4 initiated corrective action on March 17, 2011, to deobligate over \$3.3 million in unneeded funds from the Georgia ERG and closed the grant.

#### ***North Carolina (in Region 4)***

As of November 18, 2010, the North Carolina Department of Environment, Health, and Natural Resources (NCDEHNR) had approximately \$3.8 million of unliquidated obligations remaining on its ERG, of which we determined that

\$2.3 million was available for deobligation. NCDEHNR received the ERG award on January 15, 2003, and the project period ended January 1, 2011. NCDEHNR experienced delays in spending ERG funds due to state spending constraints. After we issued our draft report on March 11, 2001, North Carolina signed an amendment to extend the project period end date to January 1, 2012, to allow them to use the remaining \$2.3 million.

### ***Wisconsin (in Region 5)***

As of November 18, 2010, the Wisconsin Department of Natural Resources (WDNR) had approximately \$2.9 million of unliquidated obligations remaining on its ERG potentially available for deobligation. WDNR received the ERG award on September 4, 2003. WDNR experienced delays in spending ERG funds because of limited staff resources, a hiring freeze, project complexities, and technological issues. Wisconsin's ERG totaled \$4.1 million, and the state declared in its Technical Performance Report, dated September 28, 2007, that it had largely met the goal of training and certifying operators of small water systems. On September 30, 2009, WDNR estimated that total grant expenditures would be \$3.1 million, or 76 percent of the funds. In response to our inquiries, WDNR said it will request that the remaining amount, estimated at about \$1 million (\$4.1 million minus \$3.1 million), be transferred with its 20 percent match to the DWSRF. Region 5 and WDNR agreed that WDNR did not need the \$1 million. Subsequently they determined that Region 5 could deobligate about \$2.2 million, and Region 5 did so on February 15, 2011. In its response, to our draft report, Region 5 stated that the grant ending period would be extended to December 31, 2012, to allow WDNR to use the remaining funds (approximately \$600,000). Region 5 further stated it will closely monitor the activities planned under the remaining project period, and if activity appears to stall it will work with the state to deobligate additional funds at that time.

### ***Results for Other States***

Other states have not spent all of the funds awarded on their grants. For example, as of November 18, 2010, New Jersey had used only \$353,116 of the \$2,673,880 obligated in 2002, and Maryland had used \$519,279 of the \$2,109,343 obligated in 2003. However, we found that both states intend to spend the remaining funds by the December 2012 deadline. To expedite spending the remaining ERG funds, we found that:

- Some states are looking to extend grant periods to December 2012.
- Some states spent funds to develop databases and information systems.
- New Jersey and Ohio plan to establish internships to use remaining funds.
- Some states plan to award contracts to spend the remaining funds.
- California increased operator participation in the program and developed additional training courses.

## Recommendations

We recommend that the Regional Administrator, Region 4:

1. Direct the region's Water Protection Division Director to deobligate the \$3.3 million of unneeded funds for Georgia and monitor North Carolina's spending of the remaining funds through the end of the grant period and deobligate any unused funds to the DWSRF.

We recommend that the Regional Administrator, Region 5:

2. Direct the region's Water Protection Division Director to continually monitor Wisconsin's spending of the remaining funds through the end of the grant period and deobligate any unused funds to the DWSRF.

## Agency Comments and OIG Evaluation

In a memo dated April 14, 2011, Region 4 stated that it did not concur with the proposed recommendations for Georgia and North Carolina. Region 4 stated it did not concur because it signed an amendment with North Carolina extending the project period end date to January 1, 2012, and initiated the process to deobligate \$3.3 million from the Georgia ERG. We commend Region 4 for actions taken to deobligate unneeded funds of over \$3.3 million from the Georgia ERG and extending the project period for the North Carolina ERG. The OIG agrees that extending the grant period through January 1, 2012, would allow North Carolina additional time to use the \$2.3 million remaining on the ERG. Region 4 should continue to monitor North Carolina's use of the remaining funds through the grant end date and take actions to deobligate and redirect any remaining funds to the DWSRF.

In a memo dated April 8, 2011, Region 5 stated it did not concur with our recommendation to deobligate \$1 million from Wisconsin's ERG. However, Region 5 deobligated approximately \$2.2 million and extended the project end date to December 31, 2012. We commend Region 5 for actions taken to deobligate unneeded funds and reduce the available funds to about \$600,000 for use through December 31, 2012. The OIG agrees that extending the grant period through December 31, 2012, would allow Wisconsin additional time to use the remaining ERG funds. Region 5 also committed to continue to monitor Wisconsin's use of the remaining funds through the grant end and take actions to deobligate and redirect any remaining funds to the DWSRF.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	5	Direct the region's Water Protection Division Director to deobligate the \$3.3 million of unneeded funds for Georgia and monitor North Carolina's spending of the remaining funds through the end of the grant period and deobligate any unused funds to the DWSRF.	O	Regional Administrator, Region 4		\$3,300	
2	5	Direct the region's Water Protection Division Director to continually monitor Wisconsin's spending of the remaining funds through the end of the grant period and deobligate any unused funds to the DWSRF.	C	Regional Administrator, Region 5	2/15/2011	\$2,200	

<sup>1</sup> 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

## ***Details on Scope and Methodology***

We obtained the universe of all ERGs from the Office of the Chief Financial Officer’s Las Vegas Finance Center, which accounts for grant expenditures. The Las Vegas Finance Center used the Agency’s Financial Data Warehouse to select the agreements starting with the identifier “CT” (operator certification expense reimbursement grants) in the agreement number. The selected universe consisted of all ERGs awarded as of March 10, 2010. Our universe consisted of 53 agreements with total obligations of \$119,583,344. Of that amount, \$46,104,904 was outstanding (unliquidated).

We excluded ERGs in certain regions because they had unliquidated obligation amounts that did not meet the criteria or because we had reviewed the ERGs during preliminary research and found no reportable issues. To select regions for review, we identified the regions with the most unliquidated obligations. We selected Regions 2, 3, 4, 5, and 9 using that criterion. The population of these agreements numbered 38. To select agreements for review, we identified those states and territories with the largest amounts of unliquidated obligations for the selected regions. We selected 19 ERGs, with \$58,686,821 in total obligations and \$29,031,674 in unliquidated obligations as of November 18, 2010, from the following states/territories; a breakdown of the obligations is in appendix B:

- Arizona
- California
- Georgia
- Illinois
- Indiana
- Kentucky
- Maryland
- Michigan
- Mississippi
- Nevada
- New Jersey
- New York
- North Carolina
- Ohio
- Puerto Rico
- Tennessee
- West Virginia
- Wisconsin
- U.S. Virgin Islands

### **Prior Reviews**

We researched prior EPA Office of Inspector General (OIG) and U.S. Government Accountability Office reports related to the assistance agreements. We noted five pertinent EPA OIG reports, as listed in table A-1.

**Table A-1: Prior EPA OIG reports related to assistance agreements**

Report No.	Title	Date
2007-2-00003	Information Concerning Superfund Cooperative Agreements with New York and New Jersey	October 30, 2006
08-2-0099	Followup on Information Concerning Superfund Cooperative Agreements with New York and New Jersey	March 4, 2008
08-P-0265	EPA Should Continue Efforts to Reduce Unliquidated Obligations in Brownfields Pilot Grants	September 16, 2008
09-N-0150	EPA's Unliquidated Obligations for Grants	May 1, 2009
10-P-0081	EPA Needs Procedures to Address Delayed Earmark Projects	March 22, 2010

Source: OIG analysis.

## **Internal Control Structure**

In planning and performing our audit, we reviewed management controls related to our audit objectives. We examined EPA's fiscal year 2009 Federal Managers' Financial Integrity Act Annual Assurance Letters issued by the Regional Administrators and Assistant Administrators for the various EPA program offices to identify any weaknesses pertaining to the unliquidated obligations under assistance agreements. In addition, we examined EPA's Office of Management and Budget Circular A-123 reviews of internal controls to identify any weaknesses related to unliquidated obligations under assistance agreements. EPA identified no material weaknesses in its Circular A-123 reviews related to assistance agreements. We did not review the internal controls over EPA's Integrated Financial Management System, Financial Data Warehouse, or Office of the Chief Financial Officer Reporting and Business Intelligence Tool from which we obtained information, but relied on the review conducted during the audit of EPA's fiscal year 2009 financial statements.

## ***ERG Obligations by State and Region***

<b>State</b>	<b>Region</b>	<b>Total obligations as of 11/18/10</b>	<b>Unliquidated obligations as of 11/18/10</b>
New Jersey	2	\$2,673,880	\$2,320,764
New York	2	\$6,715,600	\$3,426,607
Puerto Rico	2	\$735,420	\$268,055
U.S. Virgin Islands	2	\$620,000	\$603,811
Maryland	3	\$2,109,343	\$1,590,064
West Virginia	3	\$1,437,900	\$857,046
Georgia	4	\$3,613,198	\$3,332,813
Kentucky	4	\$665,400	\$78,672
Mississippi	4	\$2,404,000	\$316,067
North Carolina	4	\$5,739,200	\$3,713,071
Tennessee	4	\$920,800	\$194,116
Illinois	5	\$3,753,300	\$854,270
Indiana	5	\$1,695,000	\$339,239
Michigan	5	\$6,213,000	\$1,257,283
Ohio	5	\$4,577,300	\$3,144,295
Wisconsin	5	\$4,136,480	\$2,860,952
Arizona	9	\$1,874,600	\$532,634
California	9	\$8,058,700	\$3,248,101
Nevada	9	\$743,700	\$93,814
		<b>\$58,686,821</b>	<b>\$29,031,674</b>

Source: OIG analysis and data provided by EPA.

## **Region 4 Response to Draft Report**

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 4  
ATLANTA FEDERAL CENTER  
61 FORSYTH STREET  
ATLANTA, GEORGIA 30303-8960

APR 14 2011

### MEMORANDUM

**SUBJECT:** EPA Region 4 Response to Draft Audit Report:  
EP A Should Reduce Unliquidated Obligations Under  
Expense Reimbursement Grants  
Project No. 2010-1183

**FROM:** Gwendolyn Keyes /s/  
Regional Administrator

**TO:** Melissa Heist  
Assistant Inspector General for Audits

This is the response to the March 11, 2011, draft report issued by the Office of Inspector General on unliquidated obligations under water program assistance agreements.

The information included in the draft audit report regarding the unliquidated obligations remaining available for deobligation from the Operator Certification Expense Reimbursement Grants (ERGs) for Georgia (\$3.3 million) and North Carolina (\$2.3 million) was accurate as of November 18, 2010, based on the audit conducted during spring 2010. However, we do not concur with the proposed recommendation to deobligate \$3.3 million for Georgia and \$2.3 million for North Carolina based upon the corrective actions that have been initiated by Region 4 as outlined in the Attachment (Status of Region 4 Recommendations).

Corrective actions have been taken to deobligate funds in the Georgia ERG and roll them back into the State's Revolving Fund. In the case of North Carolina's ERG, Region 4 granted a one year no cost extension. The extension was granted to allow North Carolina sufficient time to complete two major tasks under their ERG workplan. One task is the development of software and purchase of hardware for electronic testing. The second task is the development of software for online payment of operator fees. North Carolina was not able to complete these tasks within the original grant project period primarily due to several freezes on spending mandated by the Governor.

If you or your staff have any questions regarding this response, please contact Jim Giattina at (404) 562-9470.

Attachment

## Status of Region 4 Recommendations

### RECOMMENDATIONS

Rec. No.	Subject	Status	Action Official	Completion Date	Comments
1	Direct the Region 4 Water Protection Division Director to close the GA ERG & rollback the remaining funds (\$3.3 million) into the DW SRF.	1	Regional Administrator, Region 4	See Comments	GA requested closure & rollback on 3/5/11. R4 Grants PO sent close out request to R4 GMO 3/21/11. Closeout & deobligation will be processed by R4 GMO.
2	Direct the Region 4 Water Protection Division Director to grant a 1 – year, no cost extension for the NC ERG to allow state to spend the remaining funds (\$3.6 million). NC accepted & signed the amendment.	2	Regional Administrator, Region 4	NC signed amendment on 3/21/11; Project Period End Date 01/01/12;	Extension was awarded for the original amount (\$5.7 million) on 3/15/11

## **Region 5 Response to Draft Report**

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGIONS  
77 WEST JACKSON BOULEVARD  
CHICAGO, IL 60604-3590

**APR 08 2011**

REPLY TO THE ATTENTION OF:

### MEMORANDUM

**SUBJECT:** Region 5 Response to OIG Draft Report "EPA Should Reduce Unliquidated Obligations Under Expense Reimbursement Grants"

**FROM:** Susan Hedman /s/, Regional Administrator

**TO:** Melissa Heist  
Assistant Inspector General  
Office of the Inspector General

Thank you for the opportunity to review your draft report *EPA Should Reduce Unliquidated Obligations Under Expense Reimbursement Grants, Project No. 2010-1183*.

Region 5 does not concur with your recommendation to deobligate \$1 million from Wisconsin's Expense Reimbursement grant, as this action is not necessary or even possible. In December 2010, Region 5 and the Wisconsin Department of Natural Resources (WDNR) concluded that some of the remaining grant funds would not be needed for expense reimbursement and would not be spent by December 2012, EPA's target program end date. The agencies agreed to deobligate \$2.2 million from the Expense Reimbursement grant and to re-direct these funds to Wisconsin's Drinking Water State Revolving Fund (DWSRF) program, as allowed and recommended by EPA guidance. EPA also agreed to change the Expense Reimbursement grant end date from June 30, 2011 to December 31, 2012 to allow WDNR additional time to complete those activities.

On February 15, 2011, EPA deobligated \$2.2 million from the Expense Reimbursement grant and extended the end date for the Expense Reimbursement grant to December 31, 2012, which is consistent with EPA's target end date for the program. Wisconsin plans to apply for these funds when the state applies for a fiscal year 2011 DWSRF grant.

As of March 25, 2011, the available funds remaining on the Expense Reimbursement grant are less than \$600,000. Region 5 and Wisconsin believe there is still a need for these remaining funds and that they will be used over the next 21 months. The state will use the remaining funds to build a sustainable operator training infrastructure and update its criteria for operator certification. Thus, we believe no further action to remove funds from this grant is warranted. We will closely monitor the

activities planned under the remaining project period. If activity appears to stall, we will work with the state to deobligate additional funds at that time.

## ***Distribution***

Office of the Administrator  
Regional Administrator, Region 4  
Regional Administrator, Region 5  
Assistant Administrator for Administration and Resources Management  
Agency Followup Official (the CFO)  
Agency Followup Coordinator  
General Counsel  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for External Affairs and Environmental Education  
Director, Grants and Interagency Agreements Management Division,  
    Office of Administration and Resources Management  
Director, Water Protection Division, Region 4  
Director, Water Protection Division, Region 5  
Comptroller, Resource Management Division, Region 5  
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