U.S. Department of Agriculture

Office of Inspector General

# Rural Utilities Service Rural or Native Alaskan Village Grants

Audit Report 09099-2-SF

September 2010

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: September 09, 2010

REPLY TO
ATTN OF: 09099-2-SF

TO: Jonathan S. Adelstein
Administrator
Rural Utilities Service

ATTN: John Purcell
Director
Financial Management Division

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Rural Utilities Service – Rural or Native Alaskan Village Grants

This report presents the results of our audit of the subject program. Your July 14, 2010, response to the draft report, excluding attachments, is included in the report in its entirety. Excerpts from your response and the Office of Inspector General's positions have been incorporated into the relevant sections of the report.

We accept Rural Development's management decision for all of the recommendations, except for Recommendations 4, 6, and 8. The actions needed to reach management decision are identified in the Findings and Recommendations section of the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days, describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance.

We appreciate the cooperation and assistance provided by your staff during our audit.

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## Executive Summary

In response to concerns raised by Rural Development's Alaska State Office,[1] we conducted an audit of Rural Utilities Service's (RUS) rural or Native Alaskan village grants.[2] These Federal grants, which are administered by Rural Development's State office, offer 75 percent of the project development costs to provide villages with potable water and waste disposal services. The applicant must obtain 25 percent of the project development costs from State or local contributions. Rural Development's State office relies on agencies such as Alaska's Department of Environmental Conservation (DEC) to further administer the projects. From fiscal years (FYs) 2000 to 2005, RUS awarded 6 rural Alaskan village grants totaling approximately $142 million to help fund 150 water and waste projects.

We focused our audit on the Rural Development State office's concerns, but weather affected our ability to visit villages to achieve two of our objectives: determining if villages could operate and maintain their water and waste systems, and testing the adequacy of monitoring controls in place to track the projects' progress. With regard to our other two objectives, nothing came to our attention to indicate that the required 25 percent from State or local contributions was not met. However, we did conclude that Rural Development's State office internal controls over grant spending should be strengthened in relation to deobligating grant funds and verifying project expenses.

**Deobligation**

In FY 2004, RUS signed a grant agreement with DEC to fund up to $26.7 million in water and waste systems for Alaskan villages. Among other projects, the agreement allocated $2.2 million for the completion of a water plant in Tuluksak. By July 2008, work on this project had not begun.[3] According to Federal regulation, obligated RUS grant funds that are not needed to complete a proposed project must be deobligated.[4]

Instead, DEC requested in June 2005 that $750,000 be reallocated from the Tuluksak project to pay for administration costs. Rural Development's State office agreed and amended the grant agreement accordingly.[5] Since then, DEC has been reimbursed a total of $607,915 from this category without adequate supporting documentation such as invoices or itemized expenses, leaving a remaining unexpended amount of $142,085. Rural Development's State office has asked DEC to either provide itemized expenses or supporting documents when submitting its request for reimbursement, but DEC contends that it is not required to do so. While we agree

[1] The Rural Development State office concerns are the four objectives identified on page 4 of this report.
[2] RUS is an agency of Rural Development. Hereinafter, these grants will be referred to as rural Alaskan village grants throughout the report.
[3] Rural Development State officials interviewed during our audit did not know why the Tuluksak project never started.
[4] 7 CFR 1780.49(a)(2) states that rural Alaskan village grants must be serviced in accordance with subpart B. 7 CFR 1780.44(e) [subpart B] in turn requires the deobligation of unneeded grant funds.
[5] The amended grant agreement permitted the shifting of $750,000 to a new category, "VSW [Village Safe Water] project and program administration."

that these specific requirements are not mandated, the Office of Management and Budget (OMB) does require that costs incurred by State agencies receiving grant funds be adequately documented.[6] In addition, Departmental guidance requires Federal agencies to ensure that grant funds are properly used and achieve their intended results.[7]

Around April 2008, Rural Development's State office developed a written, though not formally approved, policy that permitted a committee (including DEC and Rural Development State officials) to declare a project "stalled" and then shift its funds to other projects.[8] Under this informal policy—hereinafter referred to as the "stalled" policy—Rural Development's State office amended the FY 2004 grant agreement again in July and September 2008 to reallocate a total of $441,474 from the Tuluksak project to other projects. As of May 2009, approximately $1 million remains obligated to the Tuluksak project.

Rural Development's national officials did not formally approve the "stalled" policy, but permitted the practice in Alaska because the State's long, severe winters and the need to complete water and waste disposal projects in progress make it critical to accomplish work where the opportunity exists. Given such constraints and the large amount of funds awarded in each FY 2000-2005 grant agreement, Rural Development's National Office permitted the reallocation of funds from "stalled" projects. A Rural Development national official stated, though, that since FY 2006 the agency awards grants on a per-project basis, which precludes such reallocation in the future.

However, we note that—including the $1 million for the Tuluksak project—$5.4 million remained subject to reallocation for 5 "stalled" projects included on 4 of the 6 grants awarded during FYs 2000-2005. Accordingly, we recommend that Rural Development's National Office subject the Alaska State Office's "stalled" policy to a formal approval process that considers the policy's regulatory appropriateness and takes suitable action depending on the outcome (e.g., deobligating remaining funds for "stalled" projects).

**Inadequate Documentation**

We also determined that there was inadequate documentation to support some expenses for two other RUS-financed projects. In one case, the nonprofit Alaska Native Tribal Health Consortium (ANTHC) charged $369,000 to a FY 2003 project without adequate support.[9] For example, ANTHC charged expenses to the project even though the accompanying invoices did not list the project's code. In addition, we found that DEC charged $73,000 in salary to a FY 2000 water project without the supporting timesheets having been signed both by supervisors and by workers as required.

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[6] OMB A-87, Attachment A, Section C, Number 1(j), revised May 10, 2004.
[7] Department Regulation 1110-2, Management Accountability and Control, dated April 14, 2004.
[8] The committee identifies projects as "stalled" when they are substantially behind schedule; then the committee decides which other projects need supplemental funding. If the Rural Development State Office approves the reallocation request, the grant agreement is amended accordingly. According to a Rural Development national official, a grant year's obligated funding should only be used towards projects identified within that specific grant agreement.
[9] ANTHC is a nonprofit organization established to manage all statewide health services and programs benefiting Alaska Natives.

**Recommendation Summary**

We recommend that Rural Development's National Office instruct the State office to stop using the "stalled" policy and stop reallocating funds until the policy is subjected to a formal approval process. If the policy is not approved, the National Office should deobligate remaining funds for "stalled" projects according to regulation, including any remaining unexpended funds pertaining to the "VSW project and program administration" category. In addition, Rural Development's State office should implement internal controls to ensure that expenses submitted for reimbursement are allowable and that funds are used for their intended purposes. Finally, the State office should substantiate the $607,915, $369,000, and $73,000 in unsupported expenses. If appropriate, the State office should collect its share (i.e., the percentage that RUS funded) of any unsupported costs.

**Agency Response**

In its July 14, 2010, written response to the report, the Rural Development National Office concurred with the report findings and recommendations. Rural Development's written response is included in the report.

**OIG Position**

We accept Rural Development's management decision for all of the recommendations except for Recommendations 4, 6, and 8. The actions needed to reach management decision are identified in the Findings and Recommendations section of the report.

## *Background & Objectives*

## Background

RUS is an agency within Rural Development that works to improve the quality of life in rural America. As part of its mission, RUS provides loans and grants for water and waste projects, such as constructing a sewage facility. In 1993, rural Alaskan village grants were established to remedy dire sanitation conditions by providing funds for water and waste disposal systems.[10] Rural Development's Alaska State Office is responsible for administering this grant program through authorized appropriations.

The 1996 Farm Bill, which amended the Act, authorized grants up to $15 million in each fiscal year (FY) from 1996 through 2002.[11] In February 2006, the Act was amended to make grants up to $30 million available for each FY from 2001 through 2007.[12] Currently, as amended by the 2008 Farm Bill, grants for up to $30 million are made available for each FY from 2008 through 2012. During FYs 2000 to 2005, RUS has granted approximately $142 million to help pay for 150 water and waste-related projects in Alaskan villages.

Rural Development's Alaska State Office relies on DEC's "Village Safe Water" (VSW) program and the Alaska Native Tribal Health Consortium (ANTHC) to further manage RUS-funded water and waste disposal system projects.[13] VSW personnel administer funding and provide technical and financial support in designing and constructing these systems in the State's smaller, more remote communities. Occasionally, VSW awards funding through ANTHC, which then assists the communities.

To qualify for a rural Alaskan village grant: (1) the applicant must be a rural or Native Alaskan village,[14] (2) the median household income of the village cannot exceed 110 percent of the Statewide nonmetropolitan household income,[15] (3) a dire sanitation condition must exist within the village,[16] and (4) the applicant must obtain 25 percent of the project development costs from State or local contributions.

[10] The Alaskan RUS grants were established by the Consolidated Farm and Rural Development Act of 1993.
[11] Federal Agriculture Improvement and Reform Act of 1996.
[12] Public Law 109-171 dated February 8, 2006.
[13] ANTHC is a nonprofit organization that in 1998 assumed all responsibilities of the Indian Health Service "with regard to planning, designing, and construction of sanitation facilities projects and the provision of operation and maintenance technical assistance for Alaska Native communities."
[14] 7 CFR 1780.49(b)(2) [Edition January 1, 2008] defines a rural or Native Alaskan village as a "community which meets the definition of a village under State statutes and does not have a population in excess of 10,000 inhabitants."
[15] 7 CFR 1780.3 [Edition January 1, 2008] defines the statewide nonmetropolitan median household income as "the median household income of the State's nonmetropolitan counties and portions of metropolitan counties outside of cities, towns, or places of 50,000 or more population."
[16] A dire sanitation condition exists if: (a) recurring instances of waterborne communicable disease have been documented, or (b) no community-wide water and sewer system is present and individual residents must haul water to or human waste from their homes and/or use pit privies.

## Objectives

Based on concerns raised by Rural Development's Alaska State Office, our objectives were to determine whether: (1) grant funds were adequately supported and used for program purposes, (2) communities could operate and maintain their water and waste systems, (3) monitoring controls were in place to adequately track projects' status, and (4) State or local entities contributed the required 25 percent share of projects' costs. Weather affected our ability to visit villages to achieve two of our objectives: determining if villages could operate and maintain their water and waste systems, and testing the adequacy of monitoring controls in place to track the projects' progress.

## Section 1: Deobligation

## Finding 1: RUS Reallocated Grant Funds That Should Have Been Deobligated

The Rural Development Alaska State Office permitted Federal grant funds not needed at the time for their approved projects to be shifted to other projects instead of being deobligated and returned to the Government. This became a written policy that Rural Development's National Office never formally approved but nonetheless permitted due to the large amount of grant funds awarded in each year from FY 2000 through 2005, and the need to make headway on completing water and waste projects in progress when the opportunity exists. As a result, approximately $1.2 million of $2.2 million intended to be used for one project that never started was reallocated elsewhere instead of being deobligated.[17] In addition, approximately $4.4 million for 4 other "stalled" projects was subject to reallocation.[18]

According to Federal regulation, obligated RUS grant funds that are not needed to complete a project must be deobligated.[19] However, the Rural Development State office's practice (and later written policy) permitted the shifting of funds elsewhere.

For example, in FY 2004, RUS signed a grant agreement with DEC awarding up to $26.7 million towards building or improving water and waste disposal systems in various villages, including approximately $2.2 million for the completion of a water plant in Tuluksak.[20] On June 6, 2005, DEC requested that the Rural Development State office reduce the allocation for Tuluksak by $750,000 and approve these funds to be used for administrative costs.[21] According to the request, these funds were "not required at [that] time" for the Tuluksak project. On June 8, 2005, the then-director[22] of the Rural Development State office forwarded a letter to DEC agreeing with its request, and amended the FY 2004 RUS grant agreement to allow "moving that same amount [$750,000] to a new category for VSW [Village Safe Water] project and program administration."

The most recent acting director[23] stated that she was not aware of any regulations or policy that would have authorized the former director to reallocate funds in this manner. She also could not

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[17] The $1.2 million represents the sum of (a) $750,000 allocation to the "VSW project and program administration" category from the FY 2004 Tuluksak project, and (b) $441,474 allocated to other projects once the Tuluksak project was declared "stalled".

[18] The $2.2 million FY 2004 Tuluksak project reviewed had the largest allocation of obligated funding. We did not review the other 4 "stalled" projects. The $4.4 million is the total unexpended balance remaining for these 4 projects at the time they were declared "stalled".

[19] 7 CFR 1780.49(a)(2) states that rural Alaskan village grants must be serviced in accordance with subpart B. 7 CFR 1780.44(e) [subpart B] in turn requires the deobligation of grant funds not needed to complete a project.

[20] See exhibit B for the chronology of events that affected the FY 2004 grant agreement.

[21] An administrative cost can be, for example, the cost associated with engaging an accounting firm to provide project-related payroll services.

[22] This individual left the agency in mid-2006.

[23] This individual took over as acting director shortly after the previous acting director ended his service in mid-January 2009.

explain the need for this administrative expense category (especially since each project's scope of work includes administrative costs).

In July 2008, a committee that included Rural Development State office and DEC officials declared the Tuluksak project "stalled" because it had not started. (Rural Development State office staff interviewed during our audit did not know why the project had never started.) According to a written but informal policy developed by Rural Development's State office and implemented around April 2008, a construction project could be declared "stalled" if it was substantially behind schedule from the date of initial grant funding.[24] Once a project was designated as "stalled," no more grant money from that agreement could be used towards the project in the future, and any remaining obligated funds from that project could be reallocated to "new" or not "stalled" projects. (See exhibit C.)

Rural Development's national officials did not formally approve the "stalled" policy, but permitted it in Alaska because the need to complete water and waste disposal projects in progress and the State's long, severe winters make it critical to accomplish work when the opportunity exists. Given such constraints and the large amount of funds awarded in each FY 2000-2005 grant agreement, Rural Development's National Office permitted the reallocation of unexpended grant funds from "stalled" projects to those that were making headway if the projects were on the same agreement as the "stalled" project. We found, though, that the within-grant restriction was neither reflected in the Rural Development State office's written policy nor always followed in practice. Consequently, in July and September 2008 when the then-acting director[25] approved two additional amendments reallocating a total of $441,474 in Tuluksak project funds from the FY 2004 agreement, $363,812 of that money went to a project on a FY 2003 agreement.[26] In addition to the policy not limiting reallocation to projects included on the same agreement, the policy permitted the shifting of "stalled" funds to "new" projects as well.

A Rural Development national official stated that, as of FY 2006, grants are awarded on a per-project basis; if there are remaining obligated funds not needed to complete the projects, the funds will be deobligated. However, for grants awarded during FYs 2000-2005, $5.4 million for 5 "stalled" projects—including $1 million for the FY 2004 Tuluksak project—remained subject to reallocation. Therefore, we recommend that Rural Development's National Office instruct the Alaska State Office to forgo using the "stalled" policy until the policy goes through a formal approval process. If the policy is deemed inappropriate, Rural Development's National Office should deobligate any remaining funds for "stalled" projects. If it is deemed appropriate, the National Office should ensure that the policy incorporates all national requirements.

We also recommend that—to ensure that the expenses were reasonable and allowable—Rural Development's State office review expenses reimbursed from the $750,000 reallocated in 2005 from the FY 2004 Tuluksak project to the "VSW project and program administration" category.

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[24] According to the written policy, a project can be declared "stalled" if it is "(a) 6 years and older, (b) 5 years from initial funding with substantial ongoing construction and 25% or more funds remaining, or (c) 4 years from initial funding with no substantial ongoing construction and 50% or more funds remaining."
[25] This individual served as acting director from approximately November 2006 until mid-January 2009.
[26] A total of $381,474 was reallocated under Amendment 2 (dated July 23, 2008), and $60,000 under Amendment 3 (dated September 24, 2008).

As of June 2009, DEC had been reimbursed a total of $607,915 from this category without adequate documentation, such as invoices, to support expenses—leaving a balance of $142,085.

According to the most recent acting director, DEC does not submit supporting documents (e.g., invoices or itemized expenses) with its reimbursement requests. To obtain reimbursement, DEC submits a "Request for Advance or Reimbursement" (Form 270) that gives the total Federal funding requested from a specified grant year for all projects and (when applicable) the administration category. DEC also sends with Form 270 a subsidiary report that includes a project-by-project breakdown of the total expenses requested for reimbursement. However, DEC does not further itemize these expenses or include invoices which leave the Rural Development State office no assurance that the expenses are reasonable and allowable.

In May 2007, the Rural Development State office notified DEC that its reimbursement requests did not include sufficient supporting documentation to allow the agency to monitor project budgets and expenses. DEC contended that including such documentation would require it to create another funding source to pay for the increased workload that would come with handling, tracking, and submitting all the supporting invoices, receipts, etc. As a compromise, Rural Development's State office proposed that DEC submit along with Form 270 a spreadsheet that itemizes expenses by description. DEC responded that Office of Management and Budget (OMB) circulars require it to submit neither supporting documents nor itemized expense descriptions, and so DEC continued without providing either. For example, in August 2007 DEC requested a reimbursement of $12,943 for administration but did not detail the costs that comprised this total or include supporting invoices.

We agree with DEC that OMB circulars governing grants to State agencies do not specify that agencies requesting reimbursement must submit supporting documents or itemize expenses. However, OMB Circular A-87, which establishes principles for determining whether costs incurred by State agencies under Federal award are allowable, does require that costs be adequately documented.[27] Further, Departmental guidance requires Federal agencies to execute controls that ensure that their programs are achieving their intended results and that resources are being properly used.[28]

Accordingly, we recommend that Rural Development's State office establish internal controls to monitor costs requested for reimbursement from Federal grant funds—such as RUS' rural Alaskan village grants—to verify that they are allowable. These controls need not be unduly burdensome to DEC. For example, instead of requiring all supporting invoices, the controls could require that only a sample of invoices be tested. Alternatively, supporting documents could be required for only those expenses that exceed a certain dollar threshold. However, all previous expenses reimbursed for the "VSW project and program administration" category should be reviewed to ensure that they were reasonable and allowable.

[27] OMB A-87, Attachment A, Section C, Number 1(j), revised May 10, 2004.
[28] Department Regulation 1110-2, Management Accountability and Control, dated April 14, 2004.

## Recommendations to Rural Development's National Office

### Recommendation 1

Instruct the Rural Development Alaska State Office to forego use of the "stalled" policy and the reallocation of funds until the policy and practice has been subjected to a formal approval process.

### Agency Response

Rural Development agreed with this recommendation. In its July 14, 2010, response, Rural Development concluded the use of the stalled policy should cease and that any remaining funds should be deobligated.

### OIG Position

We accept Rural Development's management decision on this recommendation.

### Recommendation 2

If the "stalled" policy is approved, ensure that it incorporates all National Office requirements in addition to procedures for documenting the specific reasons why a project is declared "stalled."

### Agency Response

Rural Development agreed with this recommendation. In its July 14, 2010, response, Rural Development indicated that the "stalled policy" was no longer being used.

### OIG Position

We accept Rural Development's management decision on this recommendation.

### Recommendation 3

If the "stalled" policy is not approved, deobligate any remaining balances for "stalled" projects according to regulation, including any remaining balance for the "VSW project and program administration" category.

### Agency Response

Rural Development agreed with this recommendation. In its July 14, 2010, response, Rural Development concluded the use of the stalled policy should cease, and its review resulted in a deobligation request of $4,593,991.

## OIG Position

We accept Rural Development's management decision on this recommendation.

## Recommendations to the Rural Development Alaska State Office

### Recommendation 4

Determine whether the $607,915 and any subsequent reimbursements for the "VSW project and program administration" category were reasonable, allowable expenses. Collect any ineligible reimbursements.

### Agency Response

Rural Development agreed with this recommendation. Rural Development concluded that the State of Alaska was able to provide documentation supporting the allowability of $540,171.05. Rural Development stated it was informed by the State of Alaska that timesheets supporting the remaining $67,743.95 (from FY 2004-2005) had been destroyed. Rural Development also stated that unless appropriate documentation was submitted, it would begin collection of the unsupported costs.

### OIG Position

We agree with Rural Development's corrective action on this recommendation. To achieve management decision, Rural Development needs to provide OIG with a copy of the bill for collection and documentation that an account receivable for $67,743.95 was established, or a justification for not recovering the questioned amount.

### Recommendation 5

Implement an internal control process that ensures that expenses submitted for reimbursement are allowable and that funds are used for intended purposes.

### Agency Response

Rural Development agreed with this recommendation. In its July 14, 2010, response, Rural Development agreed that improved internal controls would benefit the program administration. Rural Development National and State office are working with the State of Alaska to implement an internal control process that improves accountability and is administratively efficient for both entities. Rural Development plans to have the recommendation completed by October 31, 2010.

### OIG Position

We agree with Rural Development's management decision on this recommendation.

## *Section 2: Documentation*

### Finding 2: Inadequate Documentation to Support Expenses

We determined that there was inadequate documentation to support $367,815 in expenses charged to an RUS-financed FY 2003 project. This occurred because the Alaska Native Tribal Health Consortium's (ANTHC) accounting department lacked controls to ensure that supporting documents (e.g., invoices) contained the required project code information prior to being processed for payment. Also, ANTHC was unable to locate supporting documents for an additional $1,069 in questioned costs. As a result, there is a lack of assurance that $276,663 (i.e., RUS' 75 percent share of the total $368,884 in questioned costs) was incurred to accomplish work associated with this project.

OMB Circular A-122,[29] which establishes cost principles for nonprofits that receive Federal grants, states: "To be allowable under an award, costs must . . . be adequately documented." The circular also states: "Any costs allocable to a particular award . . . may not be shifted to other Federal awards."

In January 2004, ANTHC assumed responsibility for a project located in the City of St. Michael that had been funded through a FY 2003 grant agreement between RUS and DEC.[30] Of the total funding obligated, RUS contributed $2.1 million to this project, or 75 percent of the total estimated project cost of $2.8 million.

Within St. Michael, ANTHC managed several projects having different funding sources. For example, there were multiple projects—financed by both RUS and the U.S. Environmental Protection Agency (EPA)—whose intended purpose included work on a piped water and sewer system. ANTHC assigns a code to each project and uses it to capture expenses associated with that specific project. The code for the RUS-financed project we reviewed was R38.

During our review, we determined that the supporting documents for $368,884 in expenses charged to R38:

a) did not have a project code to indicate that these costs were incurred for this project ($358,047), or
b) listed a project code other than R38 ($9,768), or
c) could not be located by ANTHC ($1,069).

For example, we found an invoice totaling $521,306 for shipping expenses. ANTHC charged $333,039 of this amount to the R38 project, but the supporting documents did not specify that the costs were incurred for this specific project. (See exhibit D for details on unsupported expenses.)

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[29] OMB Circular A-122, "Cost Principles for Non-Profit Organizations", revised May 10, 2004.
[30] The grant agreement was dated April 16, 2003.

We notified an ANTHC official[31] concerning these unsupported expenses. She said that the documentation for some of these costs might be at the shipping and receiving yard, but she could not demonstrate why the questioned costs were charged to R38. For example, she did not know why a parts invoice for $12,130 that did not specify a project code was charged to R38. When asked what written procedures were in place for handling invoices without project codes (or with codes different from the purchase order), she said that the accounting department had none.

Accordingly, we recommend that the questioned expenses be verified. If they cannot, Rural Development's State office should collect its share of these reimbursed costs. We also recommend that the State office instruct DEC to require ANTHC to develop accounting procedures adequate to ensure that the source documents contain the required project code information prior to payment.

### Recommendations to Rural Development's State Office

### Recommendation 6

Verify through adequate supporting documents that the $368,884 in questioned costs pertained to the St. Michael project (project code R38). Collect RUS' share of any costs that cannot be verified.

### Agency Response

Rural Development agreed with this recommendation. Rural Development concluded that ANTHC was unable to provide support for $8,180.02 of the $368,884. Rural Development stated that it will initiate collection of its portion of the $8,180.02.

### OIG Position

We agree with Rural Development's corrective action for this recommendation. To achieve management decision, Rural Development needs to provide OIG with a copy of the bill for collection and documentation that an account receivable for its portion of the $8,180.02 was established, or a justification for not recovering the questioned amount.

### Recommendation 7

Instruct DEC to require ANTHC to develop accounting procedures to ensure that supporting source documents contain the required project code information prior to payment.

### Agency Response

Rural Development agreed with this recommendation. Rural Development stated that it will review the current accounting procedures implemented in 2008 and direct ANTHC to make changes as needed. Rural Development plans to have the recommendation completed by October 31, 2010.

### OIG Position

[31] This individual oversees the accounting department.

We accept Rural Development's management decision for this recommendation.

## Finding 3: Timesheets Processed Without Required Signatures

Of the 42 timesheets we reviewed in an August 2007 pay period for an RUS-financed project, 38 did not have the signatures required to certify them for payment.[32] This occurred because an accounting firm contracted by DEC to perform payroll functions had accepted the on-site supervisor's submission of timesheets as confirmation that they were true and correct. As a result, DEC was reimbursed $54,722 without the required signatures.[33]

OMB requires that Federal awards for salaries and wages be approved by a responsible official according to the practices of the governmental unit that received the grant.[34] Alaska's administrative manual requires that completed timesheets be signed by both the worker and supervisor.[35]

DEC contracted with a construction management company to build a lagoon for an FY 2000 RUS-financed project located in the City of Buckland. Under the contract, the company was required to provide an on-site superintendent to oversee the project and review timesheets. The timesheet used to record work hours included a signature block for both the worker and the supervisor.

However, when we reviewed a 2007 pay period's timesheets for the FY 2000 Buckland project, we found that 38 timesheets had not been signed by the supervisor and that 9 of these had also not been signed by the workers (see exhibit E).[36] Despite these timesheets not having the required certifications, the accounting firm processed them for payment.

We discussed this issue with the accounting firm's staff, who said that workers were not always available when timesheets were prepared for submission because they may have been working in remote locations on other projects. Therefore, the accounting firm accepted the supervisor's submission of the timesheet as confirmation of the hours worked.

By processing these timesheets for payment without certification, DEC does not have the required assurance that the $72,963 was for labor costs incurred on the project. DEC stated that the on-site superintendent is responsible for reviewing and approving timesheets. Accordingly, we recommend that Rural Development's State office obtain adequate documentation to support that the employees in question worked the hours claimed on the project and collect back any grant funds paid for unsupported work.

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[32] This payroll expense for our sampled project was judgmentally selected based on its high dollar value.
[33] RUS' 75 percent share of the total $72,963 in questioned costs.
[34] OMB Circular No. A-87, Attachment B 8h (1), dated May 2004.
[35] Alaska Administrative Manual (AAM) 260, dated January 2007.
[36] The pay period was August 12 through August 25, 2007.

### Recommendation to Rural Development's State Office

### Recommendation 8

Obtain adequate documentation to support that the questioned amount of $72,963 in salary expenses was incurred for work performed on the FY 2000 Buckland project. Collect RUS' share of any costs that cannot be verified.

### Agency Response

Rural Development agreed with this recommendation. Rural Development's response indicated that the State of Alaska will not be able to provide the required documentation for six employee's timesheets. Therefore, Rural Development will begin collection of the $14,468 associated with these timesheets.

### OIG Position

We accept Rural Development's corrective action for this recommendation. To achieve management decision, Rural Development needs to provide OIG with a copy of the bill for collection and documentation that an account receivable for its portion of the $14,468 was established, or a justification for not recovering the questioned amount.

## *Scope and Methodology*

The purpose of our audit was to assess concerns raised by Rural Development's Alaska State Office about rural Alaskan village grants. To make our assessment, we performed audit work at Rural Development's Alaska State Office in Palmer, Alaska; the State of Alaska's Department of Environmental Conservation in Anchorage, Alaska; and the Alaska Native Tribal Health Consortium in Anchorage, Alaska. We conducted our audit work between October 2008 and May 2009.

RUS awarded one grant for each fiscal year (2000 to 2005). Through these 6 grants, approximately $142 million was obligated to be used towards expenses associated with 150 water- and waste-related projects. The 150 projects included both capital improvement and feasibility study projects.

From capital improvement projects (excluding the feasibility study projects), we judgmentally selected 22 draw requests from 11 projects based on (a) a large portion of the obligated grant funds allocated to the specific projects, and (b) large funding reimbursements made at a single time. Upon visiting DEC and ANTHC, we further limited the judgmental sample selection to 11 draw requests from 7 projects, partly because some of the draw requests were advances and could not be directly traced to source documents (e.g., invoices). In addition, we judgmentally selected 1 out of the 5 projects declared "stalled" based on the large portion of obligated grant funds allocated to the project.

We performed the following key steps and procedures:

- Reviewed applicable laws, statutes, regulations, policies, and procedures pertaining to rural Alaskan village grants.
- Obtained records from Rural Development's State office identifying the rural Alaskan village grants awarded as of FY 2000.
- Interviewed Rural Development State officials to determine the procedures for monitoring the grantees' compliance with the terms of their grant agreements, especially pertaining to ensuring grant funds are used for allowable costs and intended purposes.
- Reviewed Rural Development's State office project files and other documents to obtain a general understanding of the sampled projects, including how the cost-sharing requirement was met.
- Interviewed Rural Development State officials to obtain an understanding concerning the reallocation of obligated grant funds from the sampled "stalled" project to other projects.
- Reviewed Rural Development State office grant agreement documentation pertaining to the reallocation of obligated grant funds from the sampled "stalled" project.
- Reviewed the "stalled" policy developed by Rural Development's State office.

- Interviewed a Rural Development national official to determine how the “stalled” policy was to be used, why it was needed, and whether it was formally approved.
- Interviewed DEC officials to determine their procedures for ensuring agency compliance (and subgrantee compliance) with the terms of the grant agreements, especially pertaining to ensuring grant funds are used for allowable costs and intended purposes.
- Reviewed source documents provided by DEC for costs charged to our sampled projects.
- Interviewed Indian Health Service officials to obtain an understanding of the agency’s role in administering rural Alaskan village grants.
- Interviewed ANTHC officials to determine the procedures for monitoring grantees’ compliance with the terms of their grant agreements, especially pertaining to ensuring that grant funds are used for allowable costs and intended purposes.
- Interviewed ANTHC officials to determine the monitoring process for tracking the status of projects funded with rural Alaskan village grants.
- Reviewed source documentation provided by ANTHC for costs charged to the sampled projects, as well as other pertinent project documentation.

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 the objectives accomplished for this audit. The accomplished audit objectives included determining whether (1) grant funds were adequately supported and used for program purposes and (2) State or local entities contributed the required 25 percent share of projects’ costs. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the accomplished audit objectives.

## *Abbreviations*

| | |
|---|---|
| ANTHC | Alaska Native Tribal Health Consortium |
| CFR | Code of Federal Regulations |
| DEC | Alaska Department of Environmental Conservation |
| EPA | United States Environmental Protection Agency |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| RUS | Rural Utilities Service |
| USDA | United States Department of Agriculture |
| VSW | Village Safe Water |

## Exhibit A: Summary of Monetary Results

| Recommendation Number | Description | Amount | Category |
|---|---|---|---|
| 3 | Deobligations | $5,520,736[37] | FTBPTBU[38]: Deobligations |
| 4 | Inadequately Supported Costs | $607,915 | Questioned Costs Recovery Recommended |
| 6 | Inadequately Supported Costs | $276,663[39] | Questioned Costs Recovery Recommended |
| 8 | Timesheets Lacked Appropriate Signatures | $54,722[40] | Questioned Costs Recovery Recommended |

This table represents the summary of monetary results.

[37] Remaining unexpended RUS funds pertaining to the “VSW project and program administration” category ($142,085), FY 2004 Tuluksak project ($1,000,917), and 4 other “stalled” projects ($4,377,734).
[38] FTBPTBU means “Funds to be put to better use”.
[39] RUS’ 75% share of the total $368,884 questioned costs.
[40] RUS’ 75% share of the total $72,963 questioned costs.

## Exhibit B: Chronology of Events Affecting FY 2004 Grant Agreement Between RUS and DEC

| Date | Action Taken |
|---|---|
| July 13, 2004 | Executed Federal FY 2004 grant agreement between RUS and DEC |
| June 6, 2005 | DEC letter to Rural Development's State office requesting that obligated RUS funds allocated to FY 2004 Tuluksak project ($2.2 million) be reduced by $750,000 and moved to a new category called "VSW project and program administration" |
| June 8, 2005 | Rural Development State office letter (which serves as Amendment 1 to FY 2004 grant agreement) concurring with DEC's June 6th request |
| June 22, 2005 | Amendment 1 signed by DEC |
| July 1, 2005 | Amendment 1 signed by the former Rural Development State Director |
| April 2008 (estimated) | Most recent Acting Rural Development State Director believed Rural Development's State office began implementing the stalled policy around this date but neither she nor the National Office could recall the policy ever being formally approved |
| July 10-30, 2008 | Committee including Rural Development State office and DEC officials signed off declaring the Tuluksak project stalled |
| July 10, 2008 | DEC letter requesting amendment to FY 2004 grant to reallocate unexpended funding from the stalled Tuluksak project to other projects |
| July 23, 2008 | Rural Development State office letter (which serves as Amendment 2 to FY 2004 grant agreement) concurring with DEC's July 10th request |
| July 30, 2008 | Amendment 2 acknowledged and accepted by DEC (Amendment approved through signature by the then-Acting Rural Development State Director) |
| September 24, 2008 | DEC letter requesting amendment to FY 2004 grant to reallocate unexpended funding from the stalled Tuluksak project to other projects |
| September 25, 2008 | Rural Development State office letter (which serves as Amendment 3 to FY 2004 grant agreement) concurring with DEC's September 24th request |
| October 20, 2008 | Amendment 3 signed by DEC (Amendment approved through signature by the then-Acting Rural Development State Director) |

This table represents a chronology of events affecting the FY 2004 grant agreement between RUS and DEC.

## Exhibit C: USDA Rural Development Alaska's "Stalled Project" definition for Rural Alaska Village Grants

The goals of this policy are to address funds administration and provide guidance on appropriate monitoring targets to optimize project completion rates, clarify program oversight, and to reduce stalled balances in the USDA Rural Development Rural Alaska Village Grant (RAVG) program.

In the past, USDA Rural Development awarded a single grant to the State of Alaska for the planning, design and construction of water and wastewater infrastructure in rural Alaska. A typical work plan for this annual grant included 20-25 individual projects. If a single project in the work plan is delayed or stalled this single project prevents the closure of the entire grant. The following policy establishes a process that will identify delayed or stalled projects early in the life of the grant and address the project accordingly so that the grant can be utilized more effectively and closed in a timely manner.

**I. Optimize Project Completion Rates**

USDA Rural Development is responsible for establishing and maintaining effective internal controls to ensure priority projects are not only funded but properly monitored and completed within established parameters. A typical RAVG construction project schedule is as follows:

| | |
|---|---|
| Year One | Project Development and design with 80% of the funds remaining at the end of the first year |
| Year Two | Initial procurement, shipping of materials and project mobilization with 50% of the funds remaining at the end of the second year |
| Year Three | Construction is initiated and additional material procurement with 30% of the funds remaining at the end of this third year |
| Year Four | Construction is completed with 10% of the funds remaining at the end of the fourth year |
| Year Five | One year warranty and punch list items are addressed and project demobilized. Final Reports are prepared and delivered. |

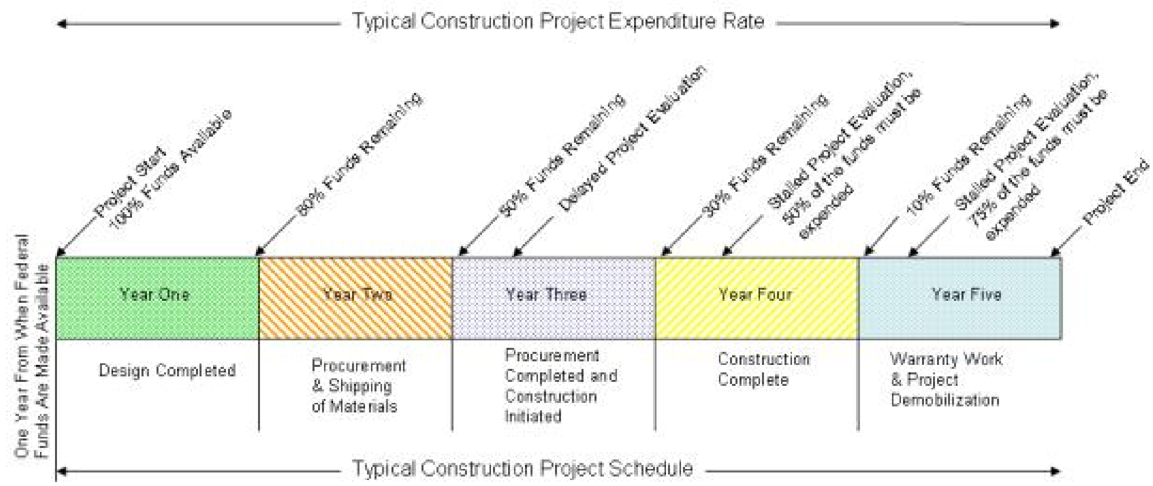
**II. Definition of Delayed Projects and Required Corrective Action Plans**

Delayed construction projects may significantly impact overall project construction budgets and completion dates. Construction projects are considered delayed if the project schedule has slipped by one year as compared to a typical RAVG project as described in Section I.

At the end of each calendar year the State of Alaska and USDA RURAL DEVELOPMENT shall review all USDA RURAL DEVELOPMENT RAVG funded projects to determine if a project is considered delayed. This review will utilize the defined design milestones in the State of Alaska's project reporting system referred to as Anipa. Any design and or construction project that has surpassed the end of the second year and does not have a completed design will be considered delayed and will be placed on a corrective action schedule leading to project completion within a five-year project timeframe.

### III. Definition of Stalled Projects

Given the recent unprecedented increase in construction costs USDA RURAL DEVELOPMENT can no longer ensure that a stalled project has a reasonable chance that the overall environmental objective of the project can be obtained. A typical RAVG construction project schedule and expenditure rates is illustrated below. Expenditure rates can vary depending on the type of project. For example, a lagoon will have a low expenditure rate early on in the project while a water storage tank will have a high expenditure rate early on in the project.




TYPICAL ANV CONSTRUCTION PROJECT

A project that is substantially behind schedule compared to a typical RAVG construction project will be considered stalled. The definition of a stalled project is dependent on the project type and is defined below for the various project types:

<u>A design and or construction project is considered stalled if it is:</u>

(a) 6 years and older

(b) 5 years from initial funding with substantial ongoing construction with 25% or more funds remaining; or

(c) 4 years from initial funding with no substantial ongoing construction and 50% or more funds remaining.

<u>A planning/ study project is considered stalled if it is:</u>

(d) Older than two years

<u>A proposed project listed on the congressionally mandated statewide three year priority list is considered stalled if it is:</u>

(e) Older than three years with no significant progress, designs being completed or ongoing construction.

**IV. Management Control and Reallocation of Funds for Stalled Projects**

At the beginning of each calendar year, the State of Alaska and USDA RURAL DEVELOPMENT shall review all USDA RURAL DEVELOPMENT RAVG funded projects to determine if a project is considered stalled as defined above. This review will utilize the defined construction milestones and financial information in the State project reporting system referred to as Anipa. In the event a project falls into one of the stalled categories, the program will reallocate any unexpended funds identified for the stalled projects to project(s) that are not stalled or to new project(s) with the concurrence of USDA Rural Development. If the review determines that a stalled project has made recent progress and can be completed within a reasonable timeframe a waiver from this policy may be granted on a project specific basis. USDA RURAL DEVELOPMENT grant regulations in RUS Instruction 1780 provide guidance for the termination of grant funds, whether for non-compliance or convenience, which would allow the grantee or sub-grantee to collect for obligations, such as contracts, incurred prior to termination.

The reallocation of project funds requires prior approval by USDA RURAL DEVELOPMENT. If the total amount of stalled projects in any single USDA RURAL DEVELOPMENT grant is greater than 10% of the USDA RURAL DEVELOPMENT grant award, a revised grant work plan will be required, consistent with Section 7(G) on the RAVG “Three Party MOU” of 2006.

If a design and or construction project is determined to be stalled, (a) (b) or (c) above, and the unexpended funds are reallocated to a new project(s), the stalled project may be placed on the congressionally mandated statewide three year priority list to be considered for future funding.

If a planning project, (d) above, or a statewide three year list project, (e) above, is determined to be stalled, a new application will be required to be considered for future funding.

This policy provides flexibility to appropriately plan and support essential infrastructure projects in rural Alaska. In addition, this policy allows USDA RURAL DEVELOPMENT to meets its responsibility to ensure that there is a reasonable chance that overall environmental objectives can be obtained. Moreover, it allows the USDA RURAL DEVELOPMENT and the State of Alaska to ensure steady progress in providing access to clean water and adequate sanitation in rural Alaska.

## Exhibit D: Inadequately Supported Costs

| Check No. | Check Date | Invoice Date | Invoice No. | Questioned Amt. | No Project Code | Project Code Other Than R38 | Lost Evidence |
|---|---|---|---|---|---|---|---|
| 149968 | 06/10/2005 | 05/31/2005 | 53105 | $ 12,130 | x | | |
| 151148 | 09/16/2005 | 09/09/2005 | 182588 | $ 1,560 | | x | |
| 150779 | 08/19/2005 | 08/09/2005 | 15561442 | $ 4,102 | x | | |
| 150779 | 08/19/2005 | 08/09/2005 | 15561453 | $ 4,102 | x | | |
| 150779 | 08/19/2005 | 08/09/2005 | 15561464 | $ 4,102 | x | | |
| 149752 | 05/23/2005 | 05/02/2005 | 40561581 | $ 28 | | x | |
| 149385 | 04/15/2005 | 03/10/2005 | 40354646 | $ 487 | x | | |
| 150808 | 08/26/2005 | 08/02/2005 | 27512219 | $ 839 | | x | |
| 150104 | 06/30/2005 | 06/02/2005 | 18987990 | $ 85 | x | | |
| 147989 | 11/30/2004 | 10/27/2004 | 11131422 | $ 305 | | x[41] | |
| 147612 | 10/26/2004 | 08/18/2004 | 408-010 | $ 333,039 | x | | |
| [42] | | | | $ 1,069 | | | x |
| [43] | | | | $ 7,036 | | x | |
| TOTAL | | | | $ 368,884 | | | |

This table represents the questioned amounts pertaining to a FY 2003 RUS-financed project.

[41] We are questioning the charging of 2 of the 3 total items (cylinder and boots) included in the shipment. The purchase order and shipping request, respectively, for these 2 items indicated a Q77 project code. ANTHC's Director of Operations provided support indicating that Q77 is an EPA-funded project.
[42] The $1,069 questioned amount represents 3 separate travel expense line items charged to the R38 account. Check number(s) and invoice number(s) associated with these expenses were not requested.
[43] The $7,036 questioned amount represents an employee's payroll expense charged to the R38 account. Check number and invoice number (if applicable) were not requested.

## Exhibit E: DEC Timesheets Not Signed By Employee And/Or Supervisor

| Sample Employee | Position | Timesheet Not Signed By Employee | Timesheet Not Signed By Supervisor | Amount Paid |
|---|---|---|---|---|
| A | Plumber | x | x | $1,410 |
| B | Operator | | x | $3,554 |
| C | Mechanic | | x | $2,804 |
| D | Laborer | | x | $852 |
| E | Clerk | | x | $1,752 |
| F | Laborer | | x | $453 |
| G | Truck Driver | | x | $2,703 |
| H | Laborer | x | x | $354 |
| I | Laborer | | x | $647 |
| J | Supervisor | | x | $4,944 |
| K | Carpenter | | x | $850 |
| L | Foreman | | x | $5,602 |
| M | Laborer | | x | $420 |
| N | Laborer | x | x | $3,822 |
| O | Laborer | x | x | $398 |
| P | Mechanic Assistant | | x | $597 |
| Q | Laborer | | x | $564 |
| R | Laborer | | x | $365 |
| S | Truck Driver | | x | $1,433 |
| T | Truck Driver | x | x | $2,643 |
| U | Laborer | | x | $879 |
| V | Mechanic | x | x | $4,645 |
| W | Laborer | x | x | $1,627 |
| X | Mechanic | | x | $2,814 |
| Y | Laborer | | x | $2,168 |
| Z | Truck Driver | x | x | $478 |

| Sample Employee | Position | Timesheet Not Signed By Employee | Timesheet Not Signed By Supervisor | Amount Paid |
|---|---|---|---|---|
| AA | Operator | | x | $3,432 |
| AB | Laborer | | x | $1,012 |
| AC | Mechanic | | x | $998 |
| AD | Operator | | x | $3,639 |
| AE | Operator | | x | $3,576 |
| AF | Laborer | | x | $2,583 |
| AG | Clerk | | x | $259 |
| AH | Carpenter | | x | $1,382 |
| AI | Mechanic Assistant | | x | $3,352 |
| AJ | Laborer | | x | $2,381 |
| AK | Laborer | x | x | $321 |
| AL | Laborer | | x | $1,250 |
| TOTAL | | 9 | 38 | |
| TOTAL AMOUNT PAID | | | | $72,963 |

This table represents the DEC timesheets that were not signed by the employee and/or the supervisor.

# USDA'S

# Rural Utilities Service

# RESPONSE TO AUDIT REPORT

United States Department of Agriculture
Rural Development

July 14, 2010

SUBJECT: Utilities Programs – Rural Alaskan Village Grant Program
(Audit No. 09099-002-SF)

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

Attached for your review is a copy of Rural Development's response dated July 13, 2010, with accompanying attachments, to the Official Draft of the subject audit.

This information is being submitted in order to reach management decision on the recommendations in the subject audit.

If you have any questions, please contact Arlene Pitter Bell of my staff at 202-632-0083.

/s/

JOHN M. PURCELL
Director
Financial Management Division

Attachments

July 13, 2010

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

THROUGH: John M. Purcell
Director
Financial Management Division
Rural Development

FROM: Jonathan Adelstein /s/
Administrator
Rural Utilities Service

SUBJECT: Rural Utilities Service – Rural Alaskan Village Grant Program Audit (09099-02-SF)

This is our response to the Office of Inspector General (OIG) Audit number 09099-02-SF draft report dated May 25, 2010. We appreciate the OIG's review of the Rural Alaskan Village Grant (RAVG) program in response to concerns raised by our Rural Development (RD) Alaska State Office. You conclude that RD's State office internal controls over grant spending should be strengthened in relation to deobligating grant funds and verifying project expenses. After careful review of the report, we agree that controls should be strengthened. We note, however, that in some circumstances cited, adequate documentation was able to be obtained from the State of Alaska and the Alaska Native Tribal Health Consortium (ANTHC) in response to this report. In addition, this response will provide information on actions taken and planned to improve the RAVG program.

**<u>Deobligation</u>**

**Recommendation 4**

Determine whether the $607,915 and any subsequent reimbursements for the "VSW project and program administration category were reasonable, allowable expenses. Collect any ineligible reimbursements.

**Response to Recommendation 4**

The report makes recommendations related to deobligation of funding. First, the report identified issues related to a $2.2 million grant for the completion of a water plant in Tuluksak. Specifically, the report notes that despite attempts by USDA to obtain information from the Alaska Department of Environmental Conservation (DEC) related to use of $607,915 in grant funds for administrative purposes, inadequate documentation exists. It is recommended that we determine whether the $607,915 and any subsequent reimbursements for the "VSW project and program administration" category were reasonable, allowable expenses and further that we collect any ineligible reimbursements.

USDA Rural Development renewed our efforts to obtain information regarding the administrative costs associated with the Tuluksak project after receipt of the draft audit. In June 2010, USDA received from the State of Alaska documentation that supports $540,171.05 in administrative expenses as shown below:

**Verified USDA RD RAVG Administrative Expenses**

| Description | USDA Verified Dollars* | Supporting Documentation |
|---|---|---|
| 2005 Salaries | $276,894.77 | Exhibit 1 – 2005 signed timesheets |
| 2005 Travel, equipment and other eligible administrative expenses | $190,314.11 | Exhibit 2 – 2005 invoices and internal VSW/Alaska documentation |
| 2007 Salaries, travel, equipment and other eligible administrative expenses | $61,095.68 | Exhibit 3 – 2007 timesheets, invoices and internal VSW/Alaska documentation |
| 2008 Salaries, travel, equipment and other eligible administrative expenses | $11,866.49 | Exhibit 4 – 2008 timesheets, invoices and internal VSW/Alaska documentation |
| **Total** | **$540,171.05** | |
| **Unsupported Costs** | **$67,743.95** | |

*Note – USDA Verified dollars show the 75% pro-rated RD portion of the total verified expenses.

Based on our review of the files submitted and email documentation provided from the State of Alaska, the $67,743.95 is associated with timesheets from 2004 and early 2005. The State of Alaska has stated that these timesheets were destroyed by the Alaska Department of Personnel and therefore are no longer available. They have requested that USDA RD accept data from the VSW payroll system as a substitute. The system does not include digital signatures. Unless other appropriate documentation is submitted, USDA RD will begin collection of the unsupported costs.

**Estimated Completion Date to Recommendation 4:** Completed.

**Recommendation 1**

Instruct the Rural Development Alaska State office to forego use of the "stalled" policy and the reallocation of funds until the policy and practice have been subjected to a formal approval process.

**Recommendation 2**

If the "stalled" policy is approved, ensure that it incorporates all national office requirements in addition to procedures for documenting the specific reasons why a project is declared "stalled."

**Recommendation 3**

If the "stalled" policy is not approved, deobligate any remaining balances for "stalled" project according to regulation, including any remaining balance for the "VSW project and program administration" category.

**Response to Recommendations 1-3**

The report raised concerns regarding the informal process being used by RD's Alaska State Office and the Alaska DEC to declare a project "stalled" and then shift its funds to other projects as needed. The report notes that, according to Federal regulation, obligated RUS grant funds that are not needed to complete a proposed project must be deobligated. You recommend that RD's National Office instruct the Alaska State office to stop using the "stalled" policy and reallocating funds until the policy is subjected to a formal approval process. Throughout fiscal year 2010, USDA RD has been reviewing the RAVG processes and concluded in April that the informal stalled policy should be ceased. Both the RD Alaska State Office and the Alaska DEC were informed that any remaining funds associated with projects that are completed or not going to proceed must be deobligated and returned to the USDA RAVG account. Those funds will be available to fund new applications as they are processed.

This new policy has been implemented, and in June a review of RAVG's obligated between 2000 and 2005 resulted in a deobligation request of $4,593,991 on June 18, 2010. (See

Attachment B.) The Tuluksak 2004 project was the only stalled project that had funds remaining. Those remaining funds as well as the unused 2004 Administrative funds ($142,085 of the $750,000 originally transferred) were part of the June 18 deobligation request. The National Office is in the process of recapturing these funds through the Budget office and will return these funds to the RD account as soon as the deobligation is completed.

**Estimated Completion Date to Recommendations 1-3:** Completed.

**Recommendation 5**

Implement and internal control process that ensures that expenses submitted for reimbursement are allowable and that funds are used for intended purposes.

**Response to Recommendation 5**

Finally, the report recommends that USDA RD implement an internal control process that ensures that expenses submitted for reimbursement are allowable and that funds are used for intended purposes. We agree that improved internal controls would benefit the program administration. The RD National and State Office are working with the State of Alaska to implement an internal control process that improves accountability and is administratively efficient for both entities.

**Estimated Completion Date to Recommendation 5:** October 31, 2010

**Documentation**

The report also identifies concerns regarding documentation of the use of RAVG funding on certain ANTHC projects.

First, you determined that there was inadequate documentation to support $368,884 in expenses charged to an RUS-financed FY 2003 project (R-38). You note that the ANTHC accounting department lacked controls to ensure that supporting documents (e.g., invoices) contained the required project code information prior to being processed for payment.

**Recommendation 6**

Verify through adequate supporting documents that the $368,884 in questioned costs pertained to the St. Michael project code R38). Collect RUS' share of any costs that cannot be verified.

**Response to Recommendation 6**
As recommended, we have contacted ANTHC for adequate documentation to support the $368,884 in questioned costs pertaining to the St. Michael project (project code R38). ANTHC was able to provide documentation that specifically referenced the R38 St. Michael project with the exception of $8,180.02. (See Exhibit 5 - documentation; Attachment C – ANTHC spreadsheet summary of documentation and Attached D – Email from ANTHC concurring with our assessment of supportable costs.) We will initiate collection of Rural Development's portion of the $8,180.02 that could not be verified.

**Estimated Completion Date to Recommendation 6:** 90 days from date of this response.

**Recommendation 7**

Instruct DEC to require ANTHC to develop accounting procedures to ensure that supporting source documents contain the required project code information prior to payment.

**Response to Recommendation 7**

You also recommend that we instruct DEC to require ANTHC to develop accounting procedures to ensure that supporting source documents contain the required project code information prior to payment. ANTHC also provided a copy of their current accounting procedures that were implemented in 2008. USDA RD will review the document and direct ANTHC to make changes as needed to ensure full accountability related to RAVG funding.

**Estimated Completion Date to Recommendation 7:** October 31, 2010

**Required Signatures on Timesheets**
Finally, the report identifies an issue with signatures on timesheets on a particular project. Specifically, of the 42 time cards reviewed from the City of Buckland project, you found that 38 did not have the signatures required to certify them for payment. You recommend that we obtain adequate documentation to support that the questioned amount of $72,963 in salary expenses was incurred for work performed on the FY 2000 Buckland project or collect RUS' share of any funds that cannot be verified.

**Recommendation 8**
Obtain adequate documentation to support that the questioned amount of $72,963 in salary expenses was incurred for work performed on the FY 2000 Buckland project. Collect RUS' share of any costs that cannot be verified.

**Response to Recommendation 8**
In June USDA RD contacted the State of Alaska to obtain adequate documentation as recommended above. The State of Alaska was able to provide all 38 timesheets signed by a supervisor. In an email response to USDA RD (see Attachment E), the State of Alaska explained its payroll process as follows:

- *Employees completed handwritten timesheets throughout the course of the pay period, and (in all but nine cases) signed them.*

- *The supervisor translated the handwritten timesheets into a computerized version, and printed and signed the computerized timesheet print-out.*

- *Both were sent to Elgee Rehfeld Mertz, and payroll was appropriately processed. The handwritten timesheets were saved in one PDF file, and the supervisor-signed timesheets in a separate PDF file at Elgee Rehfeld Mertz.*

Copies of both the handwritten and electronic versions of the subject timesheets are attached in exhibits F and G, respectively. According to the State of Alaska, it appears that the supervisor-signed timesheet PDF file was missed, or was not properly made available to the OIG auditors. With the provision of the timesheets, the salary expenses are supportable.
However, with regard to the nine timesheets identified without employee signatures, the State of Alaska was not able to provide signed timesheets. In their response, the State of Alaska requests that USDA accept equivalent documentation in accordance with OMB Circular A-87. Upon review of submitted materials, RD accepted equivalent documentation for sample employees H, O, and Z. (Attached in Exhibit F.) Documentation presented indicates that the State of Alaska will not be able to provide equivalent documentation for the other six employee's timesheets. Therefore, USDA RD will begin collection of the $14,468 associated with these timesheets.

**Estimated Time to Complete Recommendation 8:** 90 days from date of this response.

**<u>Conclusion</u>**
RD is committed to improving delivery and accountability of the RAVG program. Our ultimate goal is to ensure that all grant funds approved through the program result in completed water and waste disposal infrastructure projects that provide access to clean, safe water and waste disposal services for Native Alaskans. In support of this goal, senior officials from both the National Office and the RD

Alaska State Office hosted a conference in Anchorage in April on the RAVG program. Participants, including Alaska DEC, ANTHC, EPA and the Denali Commission, worked to identify opportunities for streamlining processes and improve accountability. The result of the conference will be a new MOU amongst the key participants and the implementation of a new streamlined application process as well as actions to improve accountability.  A full report on the conference and its outcomes will be delivered to Congress in August.

In the interim, RD has begun, and will continue to, implement the recommendations contained within this report.  On a positive note, Alaska DEC and ANTHC were able to produce documentation to support expenditure of the majority of funds included in the findings. However, $4,593,991 funds will be deobligated and $90,391.97 in other funds will be collected and returned to USDA accounts as a result of this audit.  In addition, use of the stalled policy has ceased and additional controls are being developed in conjunction with the Agency's ongoing RAVG streamlining effort.

We thank you for your review of the program and request that you consider the actions already taken by RD, and the documentation provided by the State of Alaska and ANTHC in regard the issues raised when making your final recommendations.
Attachments