



APRIL 3, 1996

OIG REPORT NO. 96-22(H)

MEMORANDUM FOR JACK K. SIDES, MAYOR OF THE CITY OF CULLMAN,
ALABAMA

SUBJECT: Cullman Water Reservoir Project, ARC Grant CO-11460-93
(Contract 94-9)

PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if grant objectives were met, and (3) to determine the current status of the project.

SCOPE

Our review included procedures to review costs incurred and claimed for reimbursement under the grant. The period of performance was July 1, 1993 through March 31, 1996. We reviewed the grantee's reports, examined records, and held discussions with grantee officials January 31-February 1, 1996. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-21 and A-110, and the ARC Code.

BACKGROUND

ARC Grant No. CO-11460-93-I-302-0930 was awarded to the City of Cullman, Alabama to assist with the development of a secondary water source to supply all of Cullman County in Appalachian Alabama. The project was to include a Needs Assessment for an alternative water supply system to be conducted by the United States Army Corps of Engineers. Grant funds were part of a special \$5 million appropriation reserved for the Cullman Water Resources Development Project and included administrative costs related to the development of the project.

The initial grant was to reimburse the grantee up to \$244,000 for actual, reasonable and eligible project costs, as determined and approved by ARC. The period of performance was July 1, 1993 through December 31, 1994. The grantee was to provide personnel, facilities, supplies and equipment necessary for the project. Work required under the grant agreement included the following tasks: (1) review alternative sites, (2) monitor completion of the Needs Assessment, (3) identify sites, (4) interview and contract for EA/EIS, (5) file applicable permit applications, (6) identify land owners and compile property lists, (7) identify and analyze environmental issues, and (8) initiate land

acquisition process. The grant included funds for a Needs Assessment to be conducted by the U.S. Army Corps of Engineers.

The grant was subsequently amended to add \$109,000 (total \$353,000) for the U.S. Army Corps of Engineers to conduct Phase II of the project. A Phase II study was to compare the costs of four potential water supply sources including three identified in the Phase I study. The period of performance was extended to March 31, 1996. At the time of our visit, the project was ongoing, however, we understand that ARC recently approved another \$25,000 for a Project Management Plan to be completed by the U.S. Army Corps of Engineers. We also understand the grant completion date will be extended to March 31, 1997.

RESULTS

The Phase I feasibility study analyzed the existing water supply system and presented alternatives for future water supply sources. The Phase II study compared the costs of the alternatives. We understand that work completed by the U.S. Corps of Engineers justifies the need for an additional water supply and indicates that the Duck River area is the most feasible alternative.

At the time of our review, the grantee had received progress and advance payments totaling \$314,027 and \$38,973 remained in the ARC grant account. They had reported total expenditures through December 31, 1995 of \$308,263 and their financial records supported that amount. We judgmentally selected expenditures for testing and found that they were well documented, however, we are questioning some costs based on their allowability. For example:

- 1) ARC procedures provide that grantees should follow Federal Travel Regulations (FTR). These regulations do not permit travelers to claim meal costs unless they are away from their duty stations at least 10 hours. We noted that a grant official routinely charged meal costs to the ARC grant when he was away from his duty station on grant business at mealtime. City travel regulations permit the reimbursement of such costs. The individual was not aware of the need to follow the FTR and did not know its requirements. We also noted that the traveler generally used a city vehicle for grant related business but did not charge the grant for gasoline or other expenses which would have been allowable.

Recommendation: We are recommending that ARC contact the grantee to clarify and resolve the noted issue.

- 2) We found that costs were claimed for some individuals who were not covered in the grant agreement or budget, or subsequently approved by ARC. For example, we noted that minor amounts were charged to the grant for meals for employees of another government agency and other business associates. We also noted that airfare, hotel and meal expenses totaling \$1,600 were charged to the grant for two city

officials to travel to Washington, D.C. although the individuals were not noted in the grant agreement or budget as being covered by the grant. Grant officials told us they were not aware these costs might not be allowable.

Recommendation: We are recommending that ARC contact the grantee to resolve the issue of claimed costs for individuals not covered under the grant agreement or approved budget.


Hubert N. Sparks
Inspector General