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Office of the Inspector General

# *Audit Report*

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To the Inspector  
General of the  
Appalachian Regional  
Commission

# **THREE RIVERS SOLID WASTE MANAGEMENT AUTHORITY**

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Audit Team  
Rick L. Taylor

Audit 96-032P  
March 27, 1996

## **SYNOPSIS**

We assessed whether TVA effectively administered a \$250,000 Appalachian Regional Commission (ARC) grant to the Three Rivers Solid Waste Management Authority (Three Rivers) for the construction of a solid waste transfer station in Lee County, Mississippi. In summary, we found:

- Engineering and construction on the transfer station did not start prior to ARC approving the grant,
- ARC funds were used only for authorized purposes,
- TVA's contract with Three Rivers was not modified to reflect an ARC reduction in project scope,
- The transfer station was completed prior to TVA receiving project plans, specifications, and drawings, and
- Fund disbursements by TVA exceeded the authorized limit. TVA plans to seek recovery from Three Rivers for ARC once the amount overpaid is determined.

## **BACKGROUND**

On August 30, 1991, TVA and ARC entered into a Memorandum of Understanding providing for TVA to assist in administering ARC programs authorized by the Appalachian Regional Development Act of 1965, as amended (40 U.S.C. App. 1, et seq.). As compensation, ARC agreed to bear the costs of administering projects not involving TVA funds. Since the beginning of fiscal year 1992, ARC has paid TVA \$100,000 annually for its services.

On September 3, 1992, ARC requested TVA to administer a \$250,000 grant that ARC had approved to assist Three Rivers in the construction of six solid waste transfer stations in seven Northeast Mississippi counties. ARC subsequently approved reducing the scope of the project for federal funding purposes to include only one transfer station, the Lee County station.

The Lee County transfer station became operational in January 1995.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

On February 5, 1996, the Inspector General of ARC requested our office to review ARC Grant MS-11105-92 that was administered by TVA under Contract TV-90448V. ARC was interested in ensuring that (1) work on the project did not begin prior to the ARC grant being approved and (2) ARC's funds were used only for authorized purposes. Since these issues related to contract administration, we decided to assess the effectiveness of TVA's administration of the ARC grant under Contract TV-90449V. To achieve our objective, we:

- Obtained an understanding of the project's history by (1) interviewing ARC, Three Rivers, and TVA personnel and (2) reviewing TVA's contract file.
- Reviewed Three Rivers' engineering and construction contracts to determine when work on the Lee County transfer station began.
- Reviewed all invoices and bank account information related to the Lee County transfer station to verify whether the costs incurred by Three Rivers were directly related to the station.
- Obtained historical documentation related to the project from TVA and Three Rivers to obtain a perspective as to the adequacy of TVA's project management.

We did not perform tests necessary to express an opinion on Three Rivers' internal control system. This audit was performed in accordance with generally accepted government audit standards.

## **FINDINGS**

We assessed whether TVA effectively administered the Three Rivers grant to construct the Lee County transfer station. In summary, we found that (1) engineering and construction on the transfer station did not start prior to ARC approving the grant, (2) ARC funds were used only for authorized purposes, (3) TVA's contract with Three Rivers was not modified to reflect an ARC reduction in project scope, (4) the transfer station was

completed prior to TVA receiving project plans, specifications, and drawings, and (5) fund disbursements by TVA exceeded the authorized limit. With regard to the latter issue, TVA plans to seek recovery from Three Rivers for ARC once the amount overpaid is determined.

## **ENGINEERING AND CONSTRUCTION STARTED SUBSEQUENT TO GRANT APPROVAL**

Work on the six transfer stations, including the Lee County station, began subsequent to ARC approving the grant. However, by the time ARC had approved reducing the project's scope in December 1995 to include only the Lee County transfer station, construction of the transfer station had been completed. Our conclusion was based on the following events:

- ARC approved the \$250,000 grant on September 3, 1992, as partial funding for the engineering and construction of six solid waste transfer stations, including the Lee County station.
- The engineering contract for the six transfer stations was dated April 15, 1993, and the construction contract for the Lee County transfer station was dated August 9, 1994.
- Three Rivers directed its construction contractor by letter dated August 17, 1994, to begin construction of the Lee County transfer station by August 22, 1994.
- Contractor invoices and Three Rivers payment records support that work on the project likely began in July 1994. The first invoice for project engineering, dated July 18, 1994, was paid on August 25, 1994. The first invoice for project construction, dated September 29, 1994, was paid on October 20, 1994.
- According to a Three Rivers representative, the Lee County transfer station became operational on January 3, 1995.
- On December 21, 1995, ARC approved reducing project's scope to include only the Lee County transfer station.

Based on ARC's notification, TVA should have modified the contract with Three Rivers to reflect the change in scope. However, due to an oversight, the contract was not revised. TVA plans to correct this problem by ensuring that TVA's Economic Development contract group is notified of scope and/or funding changes to ARC grants.

### **PROJECT COMPLETED PRIOR TO TVA RECEIVING PLANS, SPECIFICATIONS, AND DRAWINGS**

TVA did not receive critical information and data related to the Lee County transfer station until six months after construction had been completed. According to Three Rivers, the transfer station became operational on January 3, 1995. However, TVA did not receive the project plans, specifications, and drawings until June 12, 1995. According to a TVA Technical Service engineer, TVA did not know the project had been completed until Three Rivers submitted the required plans, specifications, and drawings.

### **FUND DISBURSEMENTS BY TVA EXCEEDED AUTHORIZED LIMIT**

TVA reimbursed Three Rivers \$250,000 even though the grant between the ARC and Three Rivers limited the ARC grant to the lesser of (1) the amount specified in ARC's most recent approval, \$250,000 or (2) the difference between the actual eligible project cost and the sum of the actual non-ARC basic grants and the non-federal funds. Based on this criteria, TVA should have paid Three Rivers \$191,399 rather than the full \$250,000, representing an overpayment of \$58,601.

We questioned an ARC representative concerning this matter and were told that an ARC policy change regarding cost underruns and grant limitations occurred on April 8, 1991. According to the ARC representative, ARC's current policy provides for ARC and grant recipients to share in cost underruns and that the revised policy should be reflected in calculating the amount reimbursable to Three Rivers. Using this revised criteria, the overpayment by TVA would be

\$17,463,<sup>1</sup> (i.e., \$58,601 multiplied by the grant approval limit of 29.8 percent of actual cost).

TVA plans to seek recovery of the funds for ARC once a final determination of the amount overpaid is made. In addition, to increase the likelihood of this problem not recurring, TVA plans to:

- Limit payments to grant recipients to the ARC approved project funding percentage of the invoiced amount up to the ARC approved dollar limit and
- Notify TVA field office and corporate personnel responsible for ensuring proper payment of ARC grants, that ARC funding is limited to an ARC approved percentage of total project cost and not just a fixed dollar amount.

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<sup>1</sup> If the \$20,000 which has been withheld from the construction contractor is paid, the total project cost increases to \$799,004, the cost underrun decreases to \$38,661, and the amount of the overpayment decreases to \$11,521.



February 5, 1996

MEMORANDUM FOR MR. GEORGE PROSSER, INSPECTOR GENERAL, TVA

SUBJECT: ARC Grant, MS-11105-92, TV-90448V, Three Rivers Regional Solid Waste

I would appreciate TVA OIG assistance with respect to another grant funded by ARC and administered by TVA. The subject \$250,000 grant was for part of a landfill project administered by the Three Rivers Planning and Development District, Pontotoc, Mississippi.

The original project was to cover a multi-county area, but the ARC project portion was reduced to Lee County. According to the ARC project coordinator, TVA requested plans from the grantee for review but subsequently determined that the project had been constructed before the plans were submitted. TVA apparently has some problems with the construction; and the \$250,000 is apparently being withheld by TVA pending resolution of the problems. Provided the project meets specifications, I do not see a serious problem based on the failure to submit plans prior to construction; and I believe ARC would accept TVA decisions about the appropriate payment.

However, we have two interests from an audit view:

- o Ensuring that the project was not started prior to ARC approval on September 3, 1992.
- o Ensuring that the funds were spent for the purposes intended.

I have enclosed summary documents, and I understand the primary TVA contact is Philip Hyatt.

  
 Hubert N. Sparks  
 Inspector General

Enclosures



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

January 29, 1996

Mr. Vernon R. Kelley, III  
Executive Director  
Three Rivers Planning and Development District  
P.O. Box 690  
75 South Main Street  
Pontotoc, Mississippi 38863

Dear Mr. Kelley:

This letter serves as approval of the workplan and budget (as contained in December 27, 1995 letter from Jay Blissard to David Graham) regarding Lee County Transfer Station Project (ARC Project, Contract No. TV-90448V. We have received approval from the ARC to process the invoices for the project in accordance with the payment procedures outlined in the contract.

Sincerely,

Philip W. Hyatt  
Senior Consultant  
Community Development

cc: Dr. John Demchalk  
Appalachian Regional Commission  
1666 Connecticut Avenue, NW  
Washington, D.C. 20235

We have no problem if payment is made based on TVA approval. We would like verification that work was performed after the September 1992 ARC approval and that the \$250,000 was spent on eligible items.

4/12/96

John - I will get you  
a formal transmittal memo  
on Monday 4/15/96.

In meantime I am not very  
clear on final amount -

The \$58,601 underpayment on  
page 5 and top of page 6  
apparently should be \$58,661  
( \$837,665 cost estimate less 779,004 paid )  
which will be reduced to \$38,661  
when final \$20,000 is paid.

The \$11,521 overpayment is  
probably the number to work from  
since I assume TVA will, or has  
paid the final \$20,000.

My calculation method results in  
an \$11,887 over payment

Total eligible cost	779,004	
ARC maximum	238,103	29.8%
Paid	250,000	
Overpayment	\$11,887	

Hulie