



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF THE INSPECTOR GENERAL

WESTERN DIVISION

1200 Sixth Avenue  
Seattle, Washington 98101

August 29, 1984

AUDIT REPORT NO. P2bw3-08-0046-41469

REPORT ON INTERIM AUDIT OF  
CONSTRUCTION GRANT NO. C080337  
COUNTY OF MESA  
GRAND JUNCTION, COLORADO

PURPOSE AND SCOPE OF AUDIT

We have completed a final audit of construction grant No. C080337, segments -23, -24, and -25, and interim audits of segments -22 and -26 awarded to the County of Mesa, Colorado. Our audit, covering the period from project inception through July 7, 1983, was to determine the eligibility of costs claimed and/or incurred.

The grantee's records and costs claimed were reviewed by the staff of Olson, Shultz & Flowers, Certified Public Accountants.

BACKGROUND

Grant No. C080337 was awarded on November 8, 1976, to provide Federal assistance for the construction of interceptors, interim wastewater treatment plant and Persigo Wash wastewater treatment plant. The final inspection and cut-off dates for segments -23, -24 and -25 are September 27, 1981, May 10, 1982, and December 15, 1982, respectively.

RESULTS OF AUDIT

In our opinion the costs claimed, subject to the effect of EPA's ultimate resolution of the questionable expenditures summarized below and presented in Exhibit A, fairly represent the financial information in accordance with the financial provisions of the grant and generally accepted accounting principles.

	Claimed/Incurred* by Grantee	Per Audit		
		Accepted	Questioned	Set Aside (Note a)
Total project costs	\$23,658,618	\$23,323,247	\$150,697	\$184,674
EPA share (75%)	\$17,743,962	\$17,492,435	\$113,022	\$138,505

\*Incurred costs amounted to \$16,119,297.

Note a. Set aside costs are those which require technical evaluation prior to audit acceptance.

RECOMMENDATIONS

We recommend that the Regional Administrator:

Grant Segment -22

1. Disallow the \$106,609 of costs questioned in this report from EPA participation.
2. Perform a technical evaluation of the \$24,942 of costs set aside in this report.
3. Obtain refund from the grantee of the \$27,795 overpayment of the Federal share of accepted costs in addition to the Federal share of costs determined ineligible as a result of the technical evaluation in (2) above.

Grant Segment -23

1. Disallow the \$1,838 of costs questioned in this report from EPA participation.
2. Obtain refund from the grantee of the \$1,378 overpayment of the Federal share of accepted costs.
3. Close grant segment -23.

Grant Segments -24 and -25

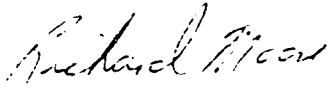
1. Close grant segments -24 and -25.

Grant Segment -26

1. Inform the grantee that the \$42,250 of costs questioned in this report are ineligible for EPA participation and should be removed from the costs claimed on its next outlay request.

AUDITEE'S RESPONSE

The grantee and its engineering firm responded to our draft report of July 3, 1984 in letters dated August 14, 1984. Because of the volume of the response it has been provided to the Grants and Financial Management Branch under separate cover. Pertinent responses have been summarized and commented upon after the notes in Exhibit A. As a result of the combined responses, we accepted \$58,759 of costs which had been questioned in our draft report.



For the Inspector General

EXHIBIT A

SCHEDULE OF COST INCURRED AND RESULTS OF AUDIT  
 CONSTRUCTION GRANT NO. C080337  
 COUNTY OF MESA, COLORADO

Category of Cost	Claimed or Incurred	Per Audit			Reference
		Accepted	Questioned	Set Aside	
<u>Grant Segment -22 (Incurred Cost)</u>					
Administration	\$ 1,113	\$ 1,113	\$	\$	
Basic fees	1,269,006	1,137,455	106,609	24,942	Notes 1&2
Other fees	9,461	9,461			
Miscellaneous	<u>6,071</u>	<u>6,071</u>			
Total	<u>\$1,285,651</u>	<u>\$1,154,100</u>	<u>\$106,609</u>	<u>\$24,942</u>	
Federal share (75%)	<u>\$964,238</u>	\$865,575	<u>\$79,957</u>	<u>\$18,706</u>	
Add Federal share of Set Aside costs		18,706			
Less EPA payments made through August 14, 1981		<u>912,076</u>			
Balance due EPA		<u>\$27,795</u>			
<i>916,800 - 1,222,400.00</i>					
<u>Grant Segment -23 (Claimed Cost)</u>					
Administration	\$ 244	\$ 244	\$		
Inspection	115,322	113,484	1,838		Note 3
Construction	<u>4,433,106</u>	<u>4,433,106</u>			
Total	<u>\$4,548,672</u>	<u>\$4,546,834</u>	<u>\$1,838</u>		
Federal share (75%)	<u>\$3,411,504</u>	\$3,410,126	<u>\$1,378</u>		
Less EPA payments made through January 27, 1983		<u>3,411,504</u>			
Balance due EPA		<u>\$1,378</u>			

<u>Category of Cost</u>	<u>Claimed or Incurred</u>	<u>Accepted</u>	<u>Per Audit</u>		<u>Reference</u>
			<u>Questioned</u>	<u>Set Aside</u>	
<u>Grant Segment -24</u>	(Claimed Cost)				
Administration	\$ 238	\$ 238			
Inspection	133,713	133,713			
Construction	<u>2,567,270</u>	<u>2,567,270</u>			
Total	<u>\$2,701,221</u>	<u>\$2,701,221</u>			
Federal share (75%)	<u>\$2,025,915</u>	<u>\$2,025,915</u>			
Less EPA payments made through July 14, 1983		<u>2,025,915</u>			
Balance due EPA		<u>-0-</u>			
<u>Grant Segment -25</u>	(Claimed Cost)				
Administration	\$ 190	\$ 190			
Inspection	15,100	15,100			
Construction	<u>274,138</u>	<u>274,138</u>			
Total	<u>\$289,428</u>	<u>\$289,428</u>			
Federal share (75%)	<u>\$217,071</u>	<u>\$217,071</u>			
Less EPA payments made through June 17, 1983		<u>217,071</u>			
Balance due EPA		<u>-0-</u>			
<u>Grant Segment -26</u>	(Incurred Cost)				
Administration	\$ 2,667	\$ 2,667	\$	\$	
Inspection	482,008	439,621	38,542	3,845	Notes 4&5
Construction	<u>14,348,971</u>	<u>14,189,376</u>	<u>3,708</u>	<u>155,887</u>	Notes 6&7
Total	<u>\$14,833,646</u>	<u>\$14,631,664</u>	<u>\$42,250</u>	<u>\$159,732</u>	
Federal share (75%)	<u>\$11,125,234</u>	<u>\$10,973,748</u>	<u>\$31,687</u>	<u>\$119,799</u>	
Add Federal share of Set Aside costs		119,799			
Less EPA payments made through July 7, 1983		<u>9,636,614</u>			
Balance due grantee		<u>\$1,456,933</u>			

Note 1. We questioned \$106,609 of basic fees. The questioned costs include:

(i) program management	\$ 52,693
(ii) Goat Wash Interceptor redesign	19,000
(iii) treatment plant design	16,400
(iv) sludge bed design revision	9,600
(v) odor control design	5,300
(vi) odor control bid package	1,216
(vii) Paradise Hills Interceptor redesign	2,400
Total	<u>\$106,609</u>

- (i) The grantee entered into a cost plus percentage of cost contract with Henningson Durham and Richardson, Inc. (HDR) for overall program management services on March 11, 1980. Cost plus percentage of cost contracts are unallowable for EPA grant participation per 40 CFR 35.937-1(a). Estimated costs under the contract were \$15,000 to \$20,000. Had we not questioned the entire cost incurred, \$52,693, we would have questioned \$32,693 or all costs over \$20,000. In its response to the CPA firm's draft report, the grantee concurred with costs questioned in excess of \$20,000.

Grantee's Response: The grantee stated that it had received EPA approval prior to execution of the contract.

- (ii) The Goat Wash and Tiaro Rado Interceptors and associated river crossings and pumping stations were designed under a \$72,000 lump sum agreement with HDR dated May 9, 1978. Subsequent to completion of the design of Goat Wash Interceptor, the Redlands Parkway was located in the same general corridor, requiring a new route for the interceptors. Costs for redesign of the Goat Wash Interceptor route were \$19,000. Since we were unable to isolate the costs of the original design in the \$72,000 lump sum agreement, we questioned the \$19,000 redesign cost of the Goat Wash Interceptor in lieu of questioning cost of the original unbuilt design. EPA does not participate in design costs for facilities not built unless redesign was made necessary by changes in Federal Regulations.

Engineer's Response: Redesign costs were incurred because of delays in EPA funding approval. Other government agencies' decisions made redesign necessary.

Auditor's Comment: Because other agencies presumably benefitted from the redesign, they should bear the cost, rather than EPA.

- (iii) The grantee's \$650,000 February 2, 1978 contract with HDR for design of the Persigo Wash Treatment Plant included design of ineligible sludge beds. The low bid for construction of the plant was \$16,521,000 including \$667,000, or, 4 percent for construction of the sludge beds. We allocated 4 percent, \$26,000, of the \$650,000 lump sum contract as applicable to sludge bed design, questioning \$16,400 after crediting the \$9,600 of redesign costs in (iv) below.
- (iv) Design costs of \$9,600 for the vacuum assisted sludge drying beds were determined ineligible by program officials. The grantee concurred with the questioned costs in its response to the CPA firm's draft report.

- (v) Design costs of \$5,300 for odor control equipment were determined ineligible by program officials. The grantee concurred with the questioned costs in its response to the CPA firm's draft report.
- (vi) Amendment No. 9 to the September 23, 1976 agreement with HDR included \$2,800 to separate bid packages into current, future and non-grant eligible items. Because the non-grant eligible \$5,300 for odor control equipment in (v) above is 43.4 percent of the \$12,200 design cost, we allocated 43.4 percent of the \$2,800 bid package cost to ineligible work, questioning \$1,216.
- (vii) A section of the Paradise Hills interceptor was redesigned after a water main was installed in its intended route. Redesign costs were \$2,400. Because we were unable to isolate the costs of the redesigned section from the March 16, 1977 lump sum contract for the original design, we have questioned the costs of redesign. EPA does not participate in design costs for facilities not built unless redesign was made necessary by changes in Federal Regulations.

Note 2. We set aside \$24,942 of basic fees for technical evaluation. The costs were incurred under Amendment No. 5 to the grantee's September 23, 1976 contract with HDR. The amendment provided for consulting services for the development of a sewer use ordinance, a user charge system to include a user charge ordinance, an industrial cost recovery system and a pretreatment program. We could not isolate the ineligible ordinance development costs from the total costs of the cost-plus-fixed-fee contract. Ordinance development costs are ineligible because they are a normal cost of government.

Note 3. We questioned \$1,838 of engineering inspection costs incurred subsequent to the October 27, 1981 cut-off date. Costs incurred after the established cut-off date are ineligible for EPA participation. In its reply to the CPA firm's draft report, the grantee stated that the \$1,838 related to design of field change orders.

Note 4. We questioned \$38,542 of inspection fees related to ineligible construction, allocated as follows:

<u>ineligible construction</u>	<u>cost</u>
Change Order No. 1	\$ 892,000
Change Order No. 3, item 4	3,708
Sludge Beds	667,000
Total	<u>\$1,562,708</u>

ineligible construction: \$1,562,708 x 435,009 / 17,637,859 = \$38,542  
total construction: \$17,637,859

The grantee, in its reply to the CPA firm's draft report, disagreed with the method of allocation, stating that equipment installation requires half the usual inspection costs.

Engineer's Response: The engineer felt that all inspection costs would have been incurred whether or not the ineligible equipment and beds had been installed.

Auditor's Comment: The ineligible items must bear a fair share of inspection costs. The most reasonable method of allocation is dollar cost.

Note 5. We set aside \$3,845 of inspection fees allocated to unapproved Change Orders No. 4, 5 and 6.

<u>C.O. Nos. 4, 5 and 6</u>	<u>\$155,887</u>	X \$435,009 = \$3,845
Total Construction	\$17,637,859	

We accepted \$135,982 suspended in the CPA firm's draft report based on the Defense Contract Audit Agency's preliminary FY 1983 overhead rate for HDR. The costs are subject to adjustment at time of final audit based on the final audited overhead rate for FY 1983.

Note 6. We questioned \$3,708 of construction costs for Change Order No. 3, item 4. The grantee concurred with the questioned costs.

Note 7. We set aside \$155,887 for construction costs for Change Order Nos. 4, 5 and 6 which were unapproved at the close of audit field work.

U.S. ENVIRONMENTAL PROTECTION AGENCY EPA ASSISTANCE AGREEMENT/AMENDMENT PART I - ASSISTANCE NOTIFICATION INFORMATION				1. ASSISTANCE ID NO. C08033/-26-2	2. LOG NUMBER		
				3. DATE OF AWARD <b>JUL 29 1983</b>	4. MAILING DATE <b>AUG 5 1983</b>		
5. AGREEMENT TYPE <input type="checkbox"/> Cooperative Agreement <input type="checkbox"/> Grant Agreement <input checked="" type="checkbox"/> Assistance Amendment No. 3		6. PAYMENT METHOD <input type="checkbox"/> Advance <input checked="" type="checkbox"/> Reimbursement <input type="checkbox"/> Letter of Credit					
		Send Payment Request To: Colorado Department of Health		7. TYPE OF ACTION Augmentation-Increase			
RECIPIENT ORGANIZATION	8. RECIPIENT Mesa County 540 Rood Avenue, P.O. Box 2128 Grand Junction, Colorado 81502		9. PAYEE City of Grand Junction 250 North Fifth Street Grand Junction, Colorado 81501				
	EIN NO. 84-6000-592	CONGRESSIONAL DISTRICT CD-03	10. RECIPIENT TYPE County				
EPA CONTACT	11. PROJECT MANAGER AND TELEPHONE NO. James Patterson, Utilities Director City of Grand Junction 250 North Fifth Street (303) 244-1557 Grand Junction, Colorado 81501		12. CONSULTANT (WWT Construction Grants Only) Henningson, Durham & Richardson 1100 Capitol Life Center Denver, Colorado 80203				
	13. ISSUING OFFICE (City/State) Denver, Colorado		14. EPA PROJECT/STATE OFFICER AND TELEPHONE NO. William H. Hornberg, Chief Municipal Facilities Branch 1860 Lincoln Street, Suite 103 Denver, Colorado 80295 (303) 837-3961				
15. EPA CONGRESSIONAL LIAISON & TEL. NO. Pat Gaskins (202) 382-5184		16. STATE APPL ID (Clearinghouse) 76-503900-001	17. FIELD OF SCIENCE N/A	18. PROJECT STEP (WWT CG Only) 3			
19. STATUTORY AUTHORITY 33 U.S.C. 1281, et seq.		20. REGULATORY AUTHORITY 40 CFR, Chapter 1, Parts 30 and 35		21. STEP 2 + 3 & STEP 3 (WWT Construction Only)			
				a. Treatment Level	3		
				b. Project Type	New		
				c. Treatment Process	2		
				d. Sludge Design	6		
22. PROJECT TITLE AND DESCRIPTION Construction of new activated sludge wastewater treatment plant at Persigo Wash site.							
23. PROJECT LOCATION (Area Impacted by Project)							
City/Place Grand Junction		County Mesa	State CO	Congressional District CD-03			
24. ASSISTANCE PROGRAM (CFDA Program No. & Title) 66.418 Construction		25. PROJECT PERIOD July 15, 1981 - Jan. 31, 1985		26. BUDGET PERIOD July 15, 1981 - Jan. 31, 1985			
27. COMMUNITY POPULATION (WWT CG Only) 28,144		28. TOTAL BUDGET PERIOD COST N/A		29. TOTAL PROJECT PERIOD COST \$17,720,000			
FUNOS		FORMER AWARD	THIS ACTION	AMENDED TOTAL			
30. EPA Amount This Action		\$12,000,000	+ \$1,290,000	\$13,290,000			
31. EPA In-Kind Amount		-0-	-0-	-0-			
32. Unexpended Prior Year Balance		-0-	-0-	-0-			
33. Other Federal Funds		-0-	-0-	-0-			
34. Recipient Contribution		4,000,000	+ 430,000	4,430,000			
35. State Contribution		-0-	-0-	-0-			
36. Local Contribution		-0-	-0-	-0-			
37. Other Contribution		-0-	-0-	-0-			
38. Allowable Project Cost		\$16,000,000	+ \$1,720,000	\$17,720,000			
30. FISCAL	Program Element GHHW80	FY 82	Appropriation 68X0103.E	Doc. Control No. C00401	Account Number HGHH081001	Object Class 41.11	Obligation/Deoblig. Amount + \$1,290,000



TABLE A - OBJECT CLASS CATEGORY (Non-construction)	TOTAL APPROVED ALLOWABLE BUDGET PERIOD COST
1. PERSONNEL	
2. FRINGE BENEFITS	
3. TRAVEL	
4. EQUIPMENT	
5. SUPPLIES	
6. CONTRACTUAL	
7. CONSTRUCTION	
8. OTHER	
9. TOTAL DIRECT CHARGES	
10. INDIRECT COSTS: RATE % BASE	
11. TOTAL (Share: Recipient _____% Federal _____%)	
12. TOTAL APPROVED ASSISTANCE AMOUNT	\$
TABLE B - PROGRAM ELEMENT CLASSIFICATION (Non-construction)	
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	
11.	
12. TOTAL (Share: Recipient _____% Federal _____%)	
13. TOTAL APPROVED ASSISTANCE AMOUNT	\$
TABLE C - PROGRAM ELEMENT CLASSIFICATION (Construction)	
1. ADMINISTRATION EXPENSE	15,000
2. PRELIMINARY EXPENSE	
3. LAND STRUCTURES, RIGHT-OF-WAY	
4. ARCHITECTURAL ENGINEERING BASIC FEES	
5. OTHER ARCHITECTURAL ENGINEERING FEES Geo-Technical Testing	55,000
6. PROJECT INSPECTION FEES	845,900
7. LAND DEVELOPMENT	
8. RELOCATION EXPENSES	
9. RELOCATION PAYMENTS TO INDIVIDUALS AND BUSINESSES	
10. DEMOLITION AND REMOVAL	
11. CONSTRUCTION AND PROJECT IMPROVEMENT (includes site dewatering)	15,854,000
12. EQUIPMENT	
13. MISCELLANEOUS	
14. TOTAL (Lines 1 thru 13)	16,769,900
15. ESTIMATED INCOME (If applicable)	
16. NET PROJECT AMOUNT (Line 14 minus 15)	16,769,900
17. LESS: INELIGIBLE EXCLUSIONS	
18. ADD: CONTINGENCIES	950,100
19. TOTAL (Share: Recipient <u>25</u> % Federal <u>75</u> %)	17,720,000
20. TOTAL APPROVED ASSISTANCE AMOUNT	\$ 13,290,000

PART III-AWARD CONDITIONS

a. GENERAL CONDITIONS

The recipient covenants and agrees that it will expeditiously initiate and timely complete the project work for which assistance has been awarded under this agreement, in accordance with all applicable provisions of 40 CFR Chapter I, Subpart B. The recipient warrants, represents, and agrees that it, and its contractors, subcontractors, employees and representatives, will comply with: (1) all applicable provisions of 40 CFR Chapter I, Subchapter B, INCLUDING BUT NOT LIMITED TO the provisions of Appendix A to 40 CFP Part 30, and (2) any special conditions set forth in this assistance agreement or any assistance amendment pursuant to 40 CFR 30.425.

b. SPECIAL CONDITIONS:

*(For cooperative agreements include identification or summarization of EPA responsibilities that reflect or contribute to substantial involvement.)*

All previous Special Conditions remain the same except for Special Conditions #9 and #10 on Amendment No. 1 which was voided by this increase.

Payment Schedule

Payments made to date:	\$ <u>9,636,614.00</u>
4th Quarter FY 83	\$ 1,500,000.00
1st Quarter FY 84	\$ 1,200,000.00
2nd Quarter FY 84	\$ 300,000.00
3rd Quarter FY 84	\$ 300,000.00
4th Quarter FY 84	\$ 170,000.00
1st Quarter FY 85	\$ 170,000.00
2nd Quarter FY 85	\$ 13,386.00
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Total	\$13,290,000.00

b. SPECIAL CONDITIONS (Continued)

PART IV

**NOTE:** The Agreement must be completed in duplicate and the Original returned to the Grants Administration Division for Headquarters awards and to the appropriate Grants Administrations Office for State and local awards within 3 calendar weeks after receipt or within any extension of time as may be granted by EPA.

Receipt of a written refusal or failure to return the properly executed document within the prescribed time, may result in the withdrawal of the offer by the Agency. Any change to the Agreement by the recipient subsequent to the document being signed by the EPA Award Official which the Award Official determines to materially alter the Agreement shall void the Agreement.

OFFER AND ACCEPTANCE

The United States of America, acting by and through the U.S. Environmental Protection Agency (EPA), hereby offers assistance/amendment to the Mesa County

for 75 % of all approved costs incurred up to and not exceeding \$ 13,290,000.00

RECIPIENT ORGANIZATION

ASSISTANCE AMOUNT

for the support of approved budget period effort described in application (including all application modifications)

Application for Federal Assistance, March 31, 1981 included herein by reference.

DATE AND TITLE


ISSUING OFFICE (Grants Administration Office)

AWARD APPROVAL OFFICE

ORGANIZATION/ADDRESS  
Grants and Financial Management Branch  
Environmental Protection Agency, Region VIII  
1860 Lincoln Street  
Denver, Colorado 80295


ORGANIZATION/ADDRESS  
Office of the Regional Administrator  
Environmental Protection Agency, Region VII  
1860 Lincoln Street  
Denver, Colorado 80295

THE UNITED STATES OF AMERICA BY THE U.S. ENVIRONMENTAL PROTECTION AGENCY

SIGNATURE OF AWARD OFFICIAL 	TYPED NAME AND TITLE John G. Welles, Regional Administrator	DATE JUL 29 1983
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This Agreement is subject to applicable U.S. Environmental Protection Agency statutory provisions and assistance regulations. In accepting this award or amendment and any payments made pursuant thereto, (1) the undersigned represents that he is duly authorized to act on behalf of the recipient organization, and (2) the recipient agrees that the award is subject to the applicable provisions of 40 CFR Chapter I, Subchapter B and of the provisions of this agreement (Parts I thru IV), and (b) that acceptance of any payments constitutes an agreement by the payee that the amounts, if any found by EPA to have been overpaid will be refunded or credited in full to EPA.

BY AND ON BEHALF OF THE DESIGNATED RECIPIENT ORGANIZATION

SIGNATURE 	TYPED NAME AND TITLE James Patterson, Utilities Director	DATE AUG 11, 1983
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