



Program Evaluation and Audit

**Municipal Inflow and Infiltration
Grants**

17 January 2012

INTRODUCTION

Background

The Met Council, with funding available from a reallocation of returned funds from the Metro Environmental Partnership Grant Program, authorized the Environmental Services Division (MCES) to implement the Foundation Drain Separation and Service Line Repair Grant Program. MCES invited municipalities that were contributors of excessive inflow and infiltration (I/I) to receive matching grants in 2008 for the purpose of disconnecting foundation drains of private homes from the sanitary sewer system. MCES had \$700,000 available for matching grants. Further funding was made available subsequent to the initial grant amount. To be eligible to receive reimbursement, cities, in addition to being contributors of excessive I/I, had to be pre-approved for the grant program by MCES and have committed their own funds for such disconnection reimbursements. Cities were required to issue plumbing permits for the work, and expenses were to be reasonable, verifiable actual paid costs of the separation. The grants were disbursed on a first come, first serve basis. Four cities participated in the programs. During the 4th Quarter of 2008 the grant was expanded to include service line repairs that are the responsibility of homeowners. All funds were disbursed by March, 2010.

The current Municipal Publicly Owned I/I Infrastructure Grants began in 2010 and offer up to 50 percent matching grants for capital improvements in municipal wastewater collection systems. Only construction costs are eligible for reimbursement. Qualified spending on approved projects can occur from July 1, 2010 through September 30, 2012. Grants have been awarded to 23 municipalities totaling \$2,986,160. Funding for this program was through a \$3 million appropriation in the state of Minnesota's 2010 bonding bill. The first invoice for reimbursement was received by the Council in August, 2011. At the time of the audit 11 reimbursement requests had been received from the participating cities.

Purpose

This audit is to ensure that Council policies, procedures, grant agreements, and guidelines were adhered to by the Council and by grant recipients.

Scope

The audit focuses on compliance with the respective grant guidelines and agreements. For the Foundation Drain & Service Line Repair Grant Program the audit focuses on compliance with the offer letters between recipient cities and the Council. The audit of the Municipal Public Owned I/I Infrastructure Grants focuses on adherence to the terms of the grant agreements between the cities and the Council.

Methodology

To assess compliance with the relevant grant requirements, the following methods of inquiry were used:

- Review of grant guidelines and Council procedures.
- Review of offer letters and agreements between the Council and municipalities.
- Review of documentation supporting reimbursement claims.
- Interview Council RA Finance and Environmental Services personnel.
- Interview municipal finance and public works personnel.

Assurances

This audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and the U. S. Government Accountability Office's *Government Auditing Standards*.

OBSERVATIONS

Foundation Drain Separation and Service Line Repair Grant Program

Eligibility for this initial grant was for \$700,000 was restricted to cities with excessive I/I. The funding was made available from a reallocation of returned funds from the Metro Environmental Partnership Grant Program with authorization by the Metropolitan Council. Eight cities initially applied for the grants with four cities eventually submitting reimbursement requests. The grant was initially for only foundation drain separations up to the lesser of \$1,000 or 50% of eligible project costs. Offer letters, instead of grant contracts, were signed by the cities and the Council. Very few reimbursement requests were submitted during 2010 for these projects, so MCES decided to expand the program to allow for repairs, rehabilitation, or replacements of lateral service lines beginning on October 1, 2008. New offer letters were sent to the participating cities for their signatures reflecting the expansion of the grant program. Reimbursement for service line repairs was for the lesser of \$2,000 or 50% of eligible project costs.

The conditions of the grant were:

- 1) cities would issue plumbing permits for each eligible repair,
- 2) cities would seek reimbursement for reasonable and verifiable actual project costs,
- 3) cities would pass-through the grant awards to the homeowners and attribute the reimbursement to the Metropolitan Council,
- 4) the grants would be awarded on a first-come-first-serve basis, rather than awarding each city a grant amount,
- 5) the Grant Program Manager at Environmental Services would receive each month the reimbursement requests and supporting invoices from the participating cities,
- 6) the Grant Program Manager would review the documentation to verify that the work was in compliance with the conditions of the grant,
- 7) the Grant Program Manager would submit a Reimbursement Request for the eligible project costs to RA Finance Accounts Payable, and
- 8) RA Finance Accounts Payable would send payment to the cities, which would then send payment to the homeowners.

As the building season started in 2009, reimbursement claims increased substantially. One of the four recipient cities initiated its own I/I matching grant program, which further increased demand among homeowners for I/I work. In late May, MCES mailed letters to the participating cities that the available grant money would be depleted in May or June of 2009. The initial \$700,000 grant was depleted with the claims submitted for work completed in May. Cities were notified by MCES that the grant funding was exhausted in early June and that no more claims would be accepted. In November, 2009 MCES with Council authorization made available up to \$150,000 in additional grant awards for

reimbursement for all eligible work for which contracts had been signed by May 31, 2009. Of the \$150,000 available, \$97,453 was reimbursed to the participating cities when the final payments were made in March, 2010.

Offer letters, rather than grant agreements as required by RA Finance's grant procedures, were executed.

An offer letter was sent to the cities for signature. The offer letter explained the eligibility requirements and terms of the grant. Council Policy 3.3.1 Grant/Loan Approval Policy gives Council staff responsibility for executing grants and loans within specific guidelines on behalf of the Council. RA Finance is responsible for overseeing and maintaining the Grant/Loan Approval Policy. RA Finance lists all steps and the responsible staff and departments within a draft "Procedure – Processing Grants (sub-grants)/Loans" document. At the time of the audit a final draft had not been approved, but RA Finance staff confirmed that the draft procedures are used by RA Finance to administer Policy 3.3.1.

RA Finance requires that one of two types of grant agreements be used for Council grant programs: 1) standardized template agreements, and 2) specialized non-template agreements. Although RA Finance has informed grant program managers of the existing procedures, the ES Finance Manager was not aware of the RA Finance's grant processing procedures. The first-come-first-served basis of the grant prevented MCES staff from awarding a specific grant amount for each city. At RA Finance's insistence, a Grant Memorandum was initiated in order to assign grant numbers and purchase order numbers for the grant awards. The Grant Memorandum attests that the grant award complies with the grant program's conditions and indicates by Council staff signatures and initials when each stage of the grant process was completed. In this instance, the Grant Memorandum was initiated after the offer letters had been executed.

Sufficient supporting documentation of reimbursement claims were retained by the cities and MCES.

A random sample of 78 of the 580 reimbursement claims submitted by the four participating cities indicated that sufficient documentation was submitted to MCES. The sampling had a 99 percent Confidence Interval with a 5 percent sampling error rate. Copies of contractor invoices were included, as well as a summary form of that month's reimbursement claims. The Grant Program Manager's work was reviewed and indicated that the monthly reimbursement claims were adjusted as necessary in order to comply with the terms of the grant program. Site reviews of the cities' permit records found all plumbing permits and supporting documentation of work completed was available.

Grant funding ended with little forewarning to participating cities.

MCES notified the applicant cities in a letter dated May 27, 2009 that the grant funds would be exhausted in May or June. When the claims had been submitted for work completed in May, the claims exceeded the remaining balance of the grant. MCES staff notified the participating cities in a letter dated June 30, 2009 that the grant funding had been exhausted. The available grant funds were 57 percent of eligible reimbursable costs. MCES reimbursed the claims at 57 percent of the reimbursable amount.¹ The offer letter had stated that MCES had sole discretion to modify the termination and forms of the grant program.

All four cities expressed that the sudden notification of the end of the grant program had surprised some homeowners that were in the process of having contractors perform the repairs, anticipating grant funding from MCES to defray a portion of the expense. MCES management responded by allowing up to an additional \$150,000 of grant funding to reimburse expenses for I/I work with signed contracts by May 31, 2009. MCES, similar to reimbursement for May, 2009 claims, reimbursed claims at 57 percent of the reimbursable amount. Interviews with city staff indicated that this revision required city staff to review previous homeowner grant applications to locate eligible reimbursement claims.

MCES' I/I webpage included a chart of the available grant dollars for the cities to use to track the usage of the grant. Interviews with the cities indicated that the webpage was not updated regularly. Some cities staff reported calling the Grant Program Manager for updates of the remaining balance. The lack of a consistent, regular update of the available funds did not give cities sufficient time to notify homeowners of the end of the program. Homeowners, when applying for the grant program, were warned by city staff that the first-come-first-serve reimbursement basis did not guarantee that grant money would be available.

Municipal Public Owned I/I Infrastructure Grant Program

Eligibility for this \$3 million grant program was limited to municipalities that have committed to inflow and infiltration work under the Council Surcharge Program. Project reimbursement costs are limited to a percentage of the “actual, reasonable, and verifiable project construction costs” and in no case may exceed 50 percent of the eligible project costs. Applicant cities submitted the project plans, including project timelines and cost estimates, to the Environmental Services Division for review. Grant agreements with the grant award amounts were then drafted and executed.

¹ If, for example, \$1,000 would have been reimbursed for \$2,000 of project work in April, then that same \$2,000 of project costs would be reimbursed at \$570 for work completed in May.

All grant agreements were executed per Council policies.

At the time of the audit 21 out of 23 grant agreements had been executed. The other two grant agreements were in process of execution. The 21 grant agreements followed the grant approval process as designed by RA Finance. The Grant Memorandum form for each sub-grantee lists all of the steps in the grant execution process. The appropriate staff person will date and sign, or initial, next to each step completed. Audit staff reviewed the 21 sub-grantee files both for verifying appropriate sign-offs on the Grant Memorandum, completeness of the Grant Agreement, and inclusion of supporting documentation. Of the nine steps within the Grant memorandum reviewed, in one sub-grantee file one step was not documented on the Grant Memorandum. The mailing by RA Finance of the Grant Agreement to a city was not initialed and dated. The grant program manager, though, had signed that the Grant Agreement was ready to be mailed and a copy of the cover memorandum from RA Finance staff accompanying the Grant Agreement was within the sub-grantee file.

Council Policy 3.3.1 Grant/Loan Approval Policy gives Council staff responsibility for executing grants and loans within specific guidelines on behalf of the Council. RA Finance is responsible for maintaining the Grant/Loan Approval Policy. Grant and loan program managers are responsible for ensuring that all grants and loans are in compliance with the adopted grant or loan program. RA Finance lists all steps and the responsible staff and departments within a draft "Procedure – Processing Grants (sub-grants)/Loans" document. At the time of the audit a final draft had not been approved, but RA Finance staff confirmed that the draft procedures are used by RA Finance to administer Policy 3.3.1.

Sixteen of the 21 sub-grantee files had copies of the applicable City Council resolutions or minutes authorizing execution of the grant agreements.

The Office of the General Counsel required the grant program manager to request copies of the city council's resolutions or minutes authorization the city's acceptance and execution of the Grant Agreement. A review of 21 sub-grantee files found 16 had copies of the city resolutions or council minutes. The grant program manager had copies of the other five cities' resolutions and provided them to Audit staff.

RA Finance's grant approval procedures do not explicitly require that the Grantee provide copies of authorizing actions beyond that of the signed Grant Agreement. RA Finance's sub-grantee files are the official files for the grant. The supporting city resolutions should have been forwarded to RA Finance for inclusion in the sub-grantee files.

All reimbursement requests were reviewed by Council staff for appropriateness.

Eleven reimbursement requests were received from the cities at the time of the audit. All reimbursement requests had signatures and dates of review by the grant program manager for reasonableness of the project costs. The grant program manager would then complete a Request For Reimbursement form and send to RA Finance Accounts Payable along with supporting invoices for payment.

CONCLUSIONS

1. *The Foundation Drain Separation and Service Line Repair Grant Program did not abide by the Processing Grants/Loans Procedures. Despite the absence of Grant Agreements, both MCES and the grantees complied with the conditions of the grant program.*
2. *The Municipal Public Owned I/I Infrastructure Grant Program abided by the Processing Grants/Loans Procedures. Both MCES and the grantees have complied with the conditions of the grant program.*

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. (Significant) The draft Procedure – Processing Grants (sub-grants)/Loans should be reviewed, then finalized and adopted.

The procedures for administering grants should be formally adopted by the Council’s Policies and Procedures Steering Team. Written procedures will clarify the roles and expectations of the Met Council, the operating department, grant/loan program managers, RA Finance staff, and grantees. Consideration should be given to require inclusion of grantees’ written resolutions or meeting minutes authorizing acceptance of the grant. The procedures, like other policies and procedures should be accessible to staff on the Met Council’s intranet.

Management Response: *Finance staff is currently on a project to establish an electronic Finance and Accounting Operations Manual. This manual complements the Council-wide Policies and Procedures by providing specific work instruction for staff. Written procedures and/or work instructions will clarify the roles in processing the sub-grants.*

Staff Responsible: *Mary Elverum*

Timetable: *September 2012*

2. (Significant) RA Finance should continue to inform managers of the procedures for awarding grants.

RA Finance should continue ensure that managers are aware of the procedures for executing grants. RA Finance has provided instruction of the grant processing procedures previously to managers. Council Policy 3.3.1 Grant/Loan Approval Policy gives RA Finance responsibility for training individual grant managers in grant accounting processes.

Management Response: *RA will continue to inform managers so they are aware of the proper process for sub-grants.*

Staff Responsible: *Mary Elverum*

Timetable: *Ongoing*