

Review of City of Grand Ridge State Revolving Fund Agreements

Division of Water Restoration Assistance

Report: A-1516DEP-024

Office of Inspector General

Internal Audit Section

Florida Department of Environmental Protection

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The Office of Inspector General (OIG) conducted a review of the City of Grand Ridge (City) State Revolving Fund (SRF) Financially Disadvantaged Small Community Grant Agreement SG892010 (SG892010), Clean Water State Revolving Fund Loan Agreement WW89202P (WW89202P), and Clean Water State Revolving Fund Construction Loan Agreement WW892020 (WW892020). This review was initiated as a result of the Fiscal Year (FY) 2015-2016 Annual Audit Plan.

Scope and Objectives

The scope of this review included documents associated with the planning and construction of the City's wastewater collection and treatment system under SG892010, WW892020, and WW89202P.

The objectives of this review were to:

- evaluate the City's requested reduction of required debt service coverage
- determine whether funds disbursed under SG892010, WW89202P, and WW892020 were made in accordance with the agreements

Methodology

We reviewed State Revolving Fund Program (Program) authoritative information and documents associated with SG892010, WW89202P, and WW892020, including construction plans, contracts, amendments, and disbursements. We also reviewed the City's wastewater revenues and costs during FY 2014-2015.

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Background

The Clean Water State Revolving Fund (CWSRF) was established as a part of Title VI of the Clean Water Act of 1987 (33 U.S. Code Chapter 1383). It allows the Federal Government to assist State Governments in providing financial assistance to Municipalities for qualifying projects.

WW89202P and WW892020 funded the construction of the City's wastewater collection and transmission system, and SG892010 funded the construction of the wastewater treatment facility. Loan repayments as required under WW89202P began in July 2009.

Funding by Agreement			
Agreement	Type	Project	Amount
WW89202P	Loan	Collection and Transmission System	\$ 10,270,122.00
WW892020	ARRA Grant	Wastewater Treatment Facility	\$ 7,500,000.00
SG892010	Grant	Wastewater Treatment Facility	\$ 9,176,522.00
Total			\$ 26,946,644.00

The total loan amount disbursed under WW89202P was \$10,270,122. As of January 15, 2016, the City had repaid \$6,251,394.02 of the principal amount.

An escrow account was established in 2006 to assist the City in meeting its required loan repayments. Interest earned from this account was expected to support the required debt payments on the loan. Since the account was established, interest income was lower than originally expected. At the end of FY 2014-2015, the value of the escrow account was \$2,728,831.17.

According to the City Manager, the City applied for a United States Department of Agriculture (USDA) loan of \$179,000 combined with a grant of \$700,000 to fund construction of a new lift station for a water system to serve new businesses near Interstate 10.

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In December 2015, the City Manager requested the Program accept a reduced debt service coverage ratio from 1.15 to 1.09, in order for the City to qualify for a greater grant percentage on its request for assistance from USDA.

Results and Conclusions

Debt Service Coverage

During our review, we examined City water and sewer related revenue and cost documentation of the City's wastewater system during FY 2014-2015. Based on documentation provided by the City, total revenues including operating, investment account, and escrow account totaled \$449,644. Revenues solely from the City's wastewater revenue totaled \$214,288. Total costs including operating, transfers to the debt service account, and loan repayments were \$436,916. Costs solely from the City's wastewater costs totaled \$157,060. The tables below summarize the City's costs and revenues as documented in the Sewer Utility Revenues as well as the Water and Sewer Utility Expenditure reports.

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Revenues		Costs and Related Expenses	
Source	Amount	Type	Amount
Sewer Billings	\$171,730	Professional Services	\$8,488
Late Fees	\$8,397	Accounting/Audits	\$4,375
Sewer Tap	\$1,800	Communications and Freight	\$3,456
Sewer Impact Fee	\$907	Utilities	\$36,431
Other Receipts	\$228	Insurance	\$6,684
New Connection Fees	\$6,625	Repair/Maintenance	\$15,316
Insufficient Funds Fees	\$128	Office Supplies	\$823
Reconnection Fees	\$1,050	Operating Supplies	\$14,067
Spray Field Revenue	\$23,195	Publications/Memberships/Training	\$260
Other	\$228	Personnel	\$65,007
Total Operating	\$214,288	Other	\$2,153
WW Investment Fund	\$117,678	Total Operating	\$157,060
Escrow Account	\$117,678	Transfer to WW Debt Service Account	\$44,500
Reported Total	\$449,644	Debt Service Payments	\$235,356
		Reported Total	\$436,916

Based on this information, available net operating revenues were \$57,228 (\$214,288-\$157,060). This available funding does not support the debt service coverage ratio requirement of 1.15 solely based on operating revenues and costs. However, the City has been able to fulfill this requirement by pledging funds remaining in the escrow account. A debt service coverage ratio of 1.15 required the City to pledge \$270,659 of net revenues. Pledging revenues from non-wastewater sources was allowable under Section 403.1835(3)(a.), Florida Statutes (F.S.). At the end of FY 2014-2015, the City's wastewater escrow account balance was \$2,728,831.17. With the availability of current funds from the escrow account, it is likely that the City will be able to meet debt requirements for approximately 23 semiannual payments¹.

¹ Due to unknown future interest rates, this estimate does not account for interest accrued on escrowed funds and assumes that the City pays debt service with only escrowed funds.

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During our review, the Program management indicated that the City requested a reduction in the 1.15 debt service coverage ratio required under 62-503.700(2)(h)1.a., Florida Administrative Code (F.A.C.), in order to obtain funds needed relating to a grant and loan award from USDA. According to the City Manager, a lower coverage ratio would allow the City to maintain its current rates, maximizing the amount of grant funding from the USDA to extend the City's water utility. The reduction in coverage required would decrease the necessary pledged funds from \$270,659.40 to \$256,538.04, for a difference of \$14,121.36. A reduction in the allowed coverage would conflict with requirements under Chapter 62-503.700(2)(h)1.a., F.A.C. and with Section 5.01 of WW89202P. Our comment to Program management is summarized in the section below.

Disbursements

We reviewed payments under SG892010, WW89202P, WW892020. Based on this review, all necessary supporting documentation was present and properly supported disbursements to the City. However, based on the documents provided in disbursement request packages, we offer comments in the section below to Program management regarding the use of allowances under WW89202P and WW892010 as well as payments from the City to its Collection and Transmission System Construction Contractor (Contractor) for stored materials.

Management Comments

Required Debt Coverage

Given the available funding, the City has met and will continue to meet debt coverage requirements under WW89202P. However, a reduction in the required debt service coverage ratio, as requested, would conflict with loan requirements under Chapter 62-503.700(2)(h)1.a.,

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F.A.C. and with Section 5.01 of WW89202P. The required ratio provides the Program with a level of assurance regarding anticipated repayments. Program management should ensure risks to Program funds are mitigated with the current controls in place.

Allowances

During the funding period, allowances were provided under the authority of Chapter 62-503.300 F.A.C. Allowances were predetermined funds set aside for administrative, engineering, and planning services performed prior to construction. The City received a total of \$1,736,903.75 in allowances under WW89202P and WW892010. The amount disbursed for these services was determined based on the projected total cost, rather than actual cost of services incurred by the City. The City was not required to submit documentation showing related costs incurred. These allowances were not treated as contract advances as described in Section 216.181, F.S.

According to Program staff, deliverables received at each milestone supported allowance cost. The three milestones included the executed agreement, the Program's acceptance of planning documents, and the Programs acceptance of design documents.

In accordance with changes made in Chapter 62-503.300 F.A.C. since these agreements, Program agreements will no longer provide for allowances. Going forward, we encourage Program management to actively monitor costs associated with Program agreements to ensure accountability for all project related costs and compliance with current statutes and rules applicable to the Program.

Stored Materials

As part of the Project, the Contractor purchased materials in advance of construction, and submitted an invoice for the cost of stored materials, less retainage. Once these materials were

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used on the collection system construction project, the Contractor reported the cost of materials installed, and reduced the amount from the list of materials stored. The cost of materials used was also subtracted from the Contractor's invoice. The Contractor submitted receipts showing the total cost of stored materials reported.

During our review, we found discrepancies in the receipts and reported material amounts. In Disbursement 14 under WW89202P, the Contractor reported \$135,945.62 of additional materials in storage; however, receipt documentation supported \$127,029.38, for a difference of \$8,916.24. In addition, the Contractor did not include \$2,236.37 for the materials previously installed in the previous pay request. Subsequent disbursement requests provided an updated accurate final account of materials and costs. However, these discrepancies were identified in this review due to the added complexity of tracking and the risk of inaccurate payments. If the Program continues to allow the practice of purchasing materials in advance to store for future use, the costs and use of these materials should be reported and appropriately tracked by Program staff to ensure accurate payment of project costs.

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To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The review was conducted by Tyler Bradford and supervised by Valerie J. Peacock.

Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3151. Copies of final reports may be viewed and downloaded via the internet at <http://www.dep.state.fl.us/ig/reports.htm>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.

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