United States Government Accountability Office

GAO

Report to the Honorable Gordon Smith, U.S. Senate

September 2007

WATER RESOURCES

Four Federal Agencies Provide Funding for Rural Water Supply and Wastewater Projects

GAO-07-1094

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Highlights

Highlights of GAO-07-1094, a report to the Honorable Gordon Smith, U.S. Senate

Why GAO Did This Study

Rural areas generally lack adequate funds for constructing and upgrading water supply and wastewater treatment facilities. As a result, they typically rely on federal grants and loans, primarily from the Rural Utilities Service (RUS), Economic Development Administration (EDA), Bureau of Reclamation (Reclamation), and the U.S. Army Corps of Engineers (Corps), to fund these projects. Concern has been raised about potential overlap between the projects these agencies fund. For fiscal years 2004 through 2006 GAO determined the (1) amount of funding these agencies obligated for rural water projects and (2) extent to which each agency's eligibility criteria and the projects they fund differed.

GAO analyzed each agency's financial data and reviewed applicable statutes, regulations, and policies.

What GAO Recommends

GAO recommends actions to ensure that the Congress has adequate information to determine whether rural water supply and wastewater projects that the Corps funds merit continued funding or duplicate other agency efforts.

In its comments on a draft of this report, the Department of Defense concurred with GAO's findings and recommendation. The Departments of Agriculture, Commerce, and the Interior also agreed with GAO's findings.

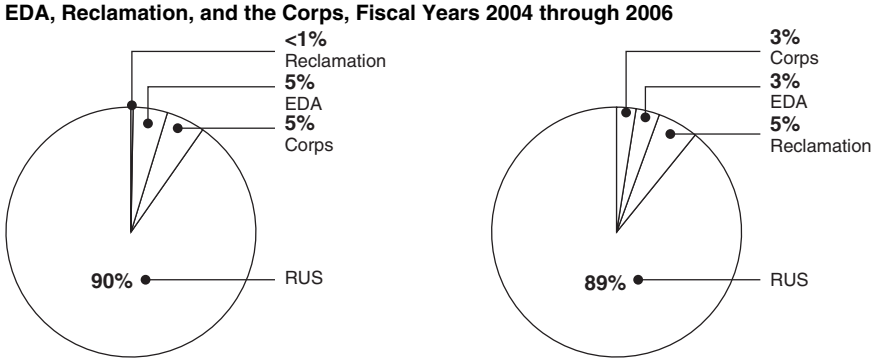
www.gao.gov/cgi-bin/getrpt?GAO-07-1094.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Anu K. Mittal at (202) 512-3841or mittala@gao.gov.

What GAO Found

From fiscal years 2004 through 2006, RUS, EDA, Reclamation, and the Corps obligated nearly $4.7 billion to about 3,100 rural water supply and wastewater projects. RUS obligated the majority of these funds—about $4.2 billion—to about 2,800 projects. Of this $4.2 billion, RUS loans accounted for about $2.7 billion, and RUS grants accounted for about $1.5 billion. EDA, Reclamation, and the Corps, combined, obligated a total of about $500 million in grants to rural communities for about 300 water projects.

Percentage of Rural Water Supply and Wastewater Projects and Funds Obligated by RUS, EDA, Reclamation, and the Corps, Fiscal Years 2004 through 2006



3,104 rural water supply and wastewater projects | **Total obligations of $4.7 billion**

Source: GAO.

Note: Numbers may not add to 100 percent due to rounding.

RUS, EDA, Reclamation, and the Corps fund similar rural water supply and wastewater projects, but they have varied eligibility criteria that limit funding to certain communities based on population size, economic need, or geographic location. RUS, EDA, and the Corps provide funding for both water supply and wastewater projects, while Reclamation provides funding only for water supply projects. Eligible water projects can include constructing or upgrading distribution lines, treatment plants, and pumping stations. RUS and EDA have formal nationwide programs with standardized eligibility criteria and processes under which communities compete for funding. In contrast, Reclamation and the Corps fund water projects in defined geographic locations under explicit congressional authorizations. In 2006 the Congress passed the Rural Water Supply Act, directing Reclamation to develop a rural water supply program with standard eligibility criteria. The Corps continues to fund rural water supply and wastewater projects under specific congressional authorizations, many of which are pilot programs. The Congress required the Corps to evaluate the effectiveness of these various pilot programs and recommend whether they should be implemented on a national basis. The Corps has only completed some of the required evaluations and, in most cases, has not made the recommendations that the Congress requested about whether or not the projects carried out under these pilot programs should be implemented on a national basis.

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Abbreviations

Corps	U.S. Army Corps of Engineers
EDA	Economic Development Administration
EPA	Environmental Protection Agency
FTE	full-time equivalent
G&A	General and Administrative
OMB	Office of Management and Budget
Reclamation	Bureau of Reclamation
RUS	Rural Utilities Service

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United States Government Accountability Office
Washington, DC 20548

September 7, 2007

The Honorable Gordon Smith
United States Senate

Dear Senator Smith:

More than 90 percent of public water supply systems and 70 percent of wastewater systems throughout the United States serve communities with populations of fewer than 10,000, usually in rural areas.[1] The Environmental Protection Agency (EPA) estimates that these water supply and wastewater systems will require about $64 billion in upgrades to meet federal water quality standards. However, rural areas typically lack adequate funds for constructing and upgrading water supply and wastewater treatment facilities. Urban areas can take advantage of economies of scale by spreading the costs of projects among larger populations, which rural areas cannot. According to EPA, the per-household cost for water supply and wastewater projects in these areas is almost four times more than the per-household cost of similar projects in more urban areas. As a result, communities in rural areas often have to rely on federal grants and loans to help finance their water supply and wastewater projects.

As we reported in 2005,[2] while several federal agencies provide funding for rural water supply and wastewater projects, these projects are primarily funded by the U.S. Department of Agriculture's Rural Utilities Service (RUS),[3] the Department of Commerce's Economic Development Administration (EDA), the Department of the Interior's Bureau of Reclamation (Reclamation), and the U.S. Army Corps of Engineers

[1]The federal government has not established a formal or consistent definition of what constitutes a rural area, but federal agencies usually define rural areas by population thresholds that range from fewer than 2,500 to fewer than 50,000.

[2]GAO, *Freshwater Programs: Federal Agencies' Funding in the United States and Abroad*, GAO-05-253 (Washington, D.C.: Mar. 11, 2005).

[3]The Rural Utilities Service is one of several subagencies within Agriculture's Rural Development agency.

(Corps).[4] Historically, RUS has provided grants and loans to construct or improve water supply and wastewater facilities in rural areas. Similarly, EDA has provided grants to economically distressed communities, including those in rural areas, to revitalize, expand, and upgrade their physical infrastructure, which includes water supply and wastewater facilities. In contrast, Reclamation has traditionally funded large water infrastructure projects to irrigate the arid western states, while the Corps has primarily funded water-related infrastructure for inland navigation and flood control purposes. More recently, the Congress has directed Reclamation and the Corps to provide funding for water supply and wastewater treatment projects, including some in rural areas, raising concerns about potential overlap between these projects and those traditionally funded by RUS and EDA.

In this context, you asked us to determine (1) for fiscal years 2004 through 2006, how much federal funding RUS, EDA, Reclamation, and the Corps obligated for rural water supply and wastewater projects and (2) to what extent each agency's eligibility criteria and the projects they fund differ. In addition, you asked us to determine, to the extent possible, the total overhead costs and number of personnel needed to manage rural water supply and wastewater projects at each agency during fiscal years 2004 through 2006. This information is included in an appendix to this report.

To determine the amount of funding RUS, EDA, Reclamation, and the Corps provided, we collected and analyzed each agency's obligations for rural water supply and wastewater projects during fiscal years 2004 through 2006. To determine the extent to which each agency's eligibility criteria and the projects they fund differ, we reviewed and analyzed applicable statutes, agency regulations, policy guidance, and project specific data submitted by each agency to us. In addition, we selected a nonprobability sample of 16 rural water supply and wastewater projects, including at least one project funded by each of the four agencies, and interviewed both local officials from the communities sponsoring these projects and federal agency officials responsible for managing the funding of these projects. To the extent possible, we also analyzed the amount of

[4]For the purposes of this report, federal funding includes grants and loans. The Department of Housing and Urban Development and EPA also provide substantial funding for water supply and wastewater projects in rural areas. However, these agencies do not provide funding directly to rural communities for water supply and wastewater projects, but rather they provide funding to state governments that administer the funds and set funding priorities. Therefore, these agencies are not included in this report.

overhead costs and number of personnel necessary to support these projects at each agency. A more detailed description of our scope and methodology is presented in appendix I. We performed our work from September 2006 through August 2007 in accordance with generally accepted auditing standards.

Results in Brief

RUS, EDA, Reclamation, and the Corps obligated nearly $4.7 billion for about 3,100 rural water supply and wastewater projects from fiscal years 2004 through 2006. RUS obligated nearly 90 percent of these funds—about $4.2 billion—for about 2,800 projects. Of the $4.2 billion, RUS loans accounted for about $2.7 billion, and RUS grants accounted for about $1.5 billion. In contrast, EDA, Reclamation, and the Corps together provided a total of about $500 million in grants to rural communities for about 300 projects. While RUS provided the majority of the funding and supported the largest number of projects, Reclamation provided the most funding per project. For example, the average RUS grant was approximately $680,000 per project, while the average Reclamation grant was nearly $22 million per project. EDA and Corps grants averaged about $1 million and $800,000 per project, respectively.

RUS, EDA, Reclamation, and the Corps fund similar rural water supply and wastewater projects, but their varying eligibility criteria can restrict funding to specific communities based on population size, economic need, or geographic location. Specifically, RUS, EDA, and the Corps provide funding for both water supply and wastewater projects, while Reclamation only provides funding for water supply projects. Water supply and wastewater projects funded by these agencies primarily include the construction or upgrading of distribution lines, treatment plants, and pumping stations. RUS and EDA have established formal nationwide programs with standardized eligibility criteria and processes under which communities compete for funding. For example, RUS' criteria requires projects to be located in a city or town with a population of 10,000 or less, while EDA's criteria requires projects to be located in economically distressed communities, regardless of the size of the population served, and the projects must save or create jobs. In contrast, Reclamation and the Corps have not historically had rural water supply and wastewater programs; rather, they have provided funding to specific projects in defined geographic locations under explicit congressional authorizations. For example, the Mni Wiconi Project Act of 1988, as amended, directs Reclamation to provide funding to three Indian tribes and seven counties for a water supply project in South Dakota. Similarly, a section of the Water Resources Development Act of 1999, as amended, directs the Corps

to provide funding to water supply and wastewater projects in Idaho, Montana, rural Nevada, New Mexico, and rural Utah. More recently, the Congress passed the Rural Water Supply Act of 2006, directing Reclamation to develop a rural water supply program with standard eligibility criteria within 1 year and to assess within 2 years how the rural water projects that Reclamation funds will complement those projects being funded by other federal agencies. However, the Corps continues to fund rural water supply and wastewater projects under specific congressional authorizations, many of which are pilot programs. We found that, during fiscal years 2004 through 2006, the Corps completed more than 100 rural water supply and wastewater projects under various pilot programs. The Corps was required to evaluate the effectiveness of the projects funded under these various pilot programs and recommend to the Congress whether they should be implemented on a national basis. The Corps has completed most of the evaluations required under the various pilot programs, but, in most cases, the Corps either did not make a recommendation or concluded that it had not completed enough projects to make meaningful recommendations. In the absence of these evaluations and recommendations, the Congress does not have information on whether, collectively, the projects carried out under the Corps' pilot programs merit continued funding, duplicate other agency efforts, or should be implemented on a national basis. We are recommending that the Corps provide the Congress a comprehensive report on the water supply and wastewater projects it has funded and determine whether or not these programs should continue to be funded by the Corps. In commenting on a draft of this report, the Department of Defense concurred with our findings and recommendation. The Department of the Interior also agreed with our findings and the Departments of Agriculture and Commerce provided technical comments, which we have incorporated throughout the report, as appropriate.

Background

RUS, EDA, Reclamation, and the Corps each have distinct missions and fund rural water supply and wastewater projects under separate programs and congressional authorizations. Furthermore, each agency has its own definition of what constitutes a rural area and a unique organizational structure to implement its programs. Specifically,

- RUS administers the U.S. Department of Agriculture's rural utilities programs throughout the country, which are aimed at expanding electricity, telecommunications, and water and waste disposal services. RUS provides assistance for water supply and wastewater projects through its Water and Environmental Program and defines rural areas for

this program as incorporated cities and towns with a population of 10,000 or fewer and unincorporated areas, regardless of population. RUS manages this program through its headquarters in Washington, D.C., and 47 state offices, each supported by area and local offices.

- EDA provides development assistance to areas experiencing substantial economic distress regardless of whether or not they are rural or urban. EDA primarily provides assistance for water supply and wastewater projects in distressed areas through its Public Works and Development Facilities Program and uses a U.S. Census Bureau definition for rural areas that is based on metropolitan statistical areas.[5] EDA manages this program through its headquarters in Washington, D.C., six regional offices, and multiple field personnel.

- Reclamation was established to implement the Reclamation Act of 1902, which authorized the construction of water projects to provide water for irrigation in the arid western states. Reclamation generally manages numerous municipal and industrial projects as part of larger, multipurpose projects that provide irrigation, flood control, power, and recreational opportunities in 17 western states, unless otherwise directed by the Congress.[6] Reclamation provides assistance for water supply projects through individual project authorizations and defines a rural area as a community, or group of communities, each of which has a population of not more than 50,000 inhabitants.[7] Reclamation manages these projects through its headquarters in Washington, D.C., and Denver, Colorado, five regional offices, and multiple field offices in the western United States.

- The Corps' Civil Works programs investigate, develop, and maintain water and related environmental resources throughout the country to meet the agency's navigation, flood control, and ecosystem restoration missions. In addition, the Civil Works programs also provide disaster response, as well as engineering and technical services. The Corps provides assistance for

[5]Metropolitan statistical areas are based on county-level data with central cities of at least 50,000 residents and surrounding contiguous counties that are metropolitan in character and economically tied to the core counties. Rural areas may be within or outside such areas.

[6]The Reclamation states include Arizona, California, Colorado, Idaho, Kansas, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

[7]Reclamation's definition of a rural area was established by Pub. L. No. 109–451, enacted December 22, 2006.

water supply and wastewater projects through authorizations for either a project in a specific location, or for a program in a defined geographic area, and does not have a definition for rural areas.[8] The Corps administers its programs and projects through its Headquarters in Washington, D.C., eight regional divisions, and 38 district offices.

These agencies rely on several sources of funding—including annual appropriations from the general fund and from dedicated funding sources, such as trust funds—to provide financial support for these projects and programs.

Four Agencies Obligated about $5 Billion for Rural Water Supply and Wastewater Projects during Fiscal Years 2004 through 2006

RUS, EDA, Reclamation, and the Corps obligated $4.7 billion to 3,104 rural water supply and wastewater projects from fiscal years 2004 through 2006.[9] Of these obligations, RUS obligated nearly $4.2 billion (or about 90 percent) of the funding—about $1.5 billion in grants and about $2.7 billion in loans[10]—to about 2,800 projects. EDA, Reclamation, and the Corps provided a combined $500 million in grants to rural communities for about 300 water supply and wastewater projects. Table 1 shows the number of projects and the amount of obligations for rural water supply and wastewater projects by agency for fiscal years 2004 through 2006. Figures 1 through 4 show the location of these rural water supply and wastewater projects by agency during fiscal years 2004 through 2006.

[8]Corps officials agreed to use the U.S. Census Bureau's density-based urban and rural classification system to determine which Corps projects were in rural areas. Using this approach, we determined for purposes of this report, rural areas for Corps' projects include all nonurbanized areas and urban clusters with populations of less than 20,000, as well as certain areas in Nevada and Utah that the Congress defined as rural for specific Corps projects.

[9]Obligations represent amounts for orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Obligations differ from expenditures in that an expenditure is the issuance of a check, disbursement of cash, or electronic transfer of funds made to liquidate an obligation. Because, in some circumstances, expenditures made during a specific fiscal year may fulfill an obligation during prior years, obligations provide the best estimate of what an agency plans to spend during a fiscal year.

[10]Since a high level of repayment is expected on these loans, the ultimate cost to the federal government for these loans is significantly less than the amount of the loans provided. Accordingly, $2.7 billion is higher than the actual cost to the federal government.

Table 1: Number of Projects and Obligations for Rural Water Supply and Wastewater Projects for Four Federal Agencies for Fiscal Years 2004 through 2006

Dollars in thousands

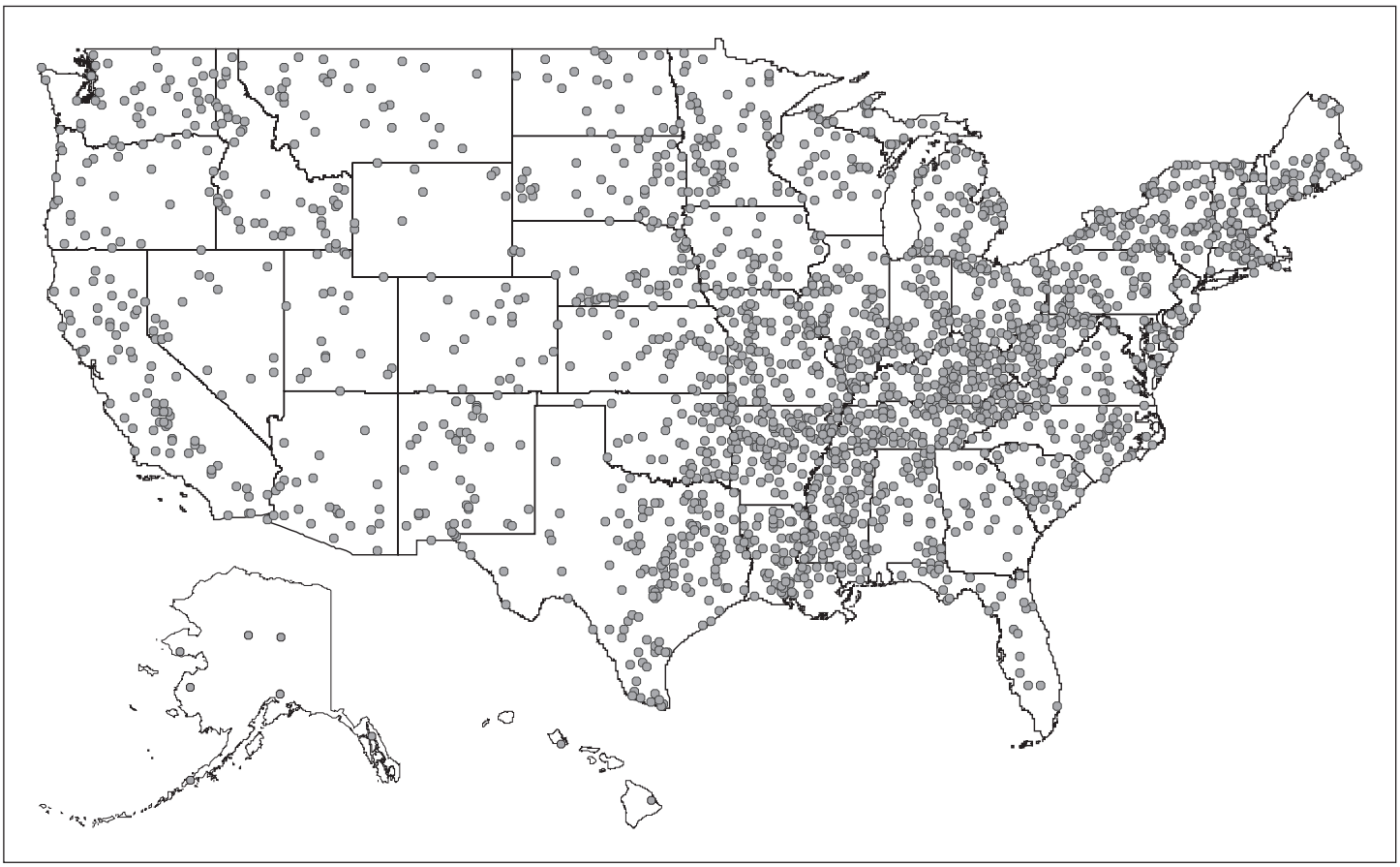
			Grants			Loans		
Agency	**Number of projects**	**Total obligations**	**Number**	**Obligations**	**Average**	**Number**	**Obligations**	**Average**
RUS	2,802	**$4,154,651**	2,117[a]	$1,439,681	$680	2,287[a]	$2,714,971	$1,187
EDA	142	**153,505**	142	153,505	1,081	[b]	[b]	[b]
Reclamation	11	**240,185**	11	240,185	21,835	[b]	[b]	[b]
Corps	149	**118,519**	149	118,519	795	[b]	[b]	[b]
Total	**3,104**	**$4,666,860**	**2,419**	**$1,951,890**	**$807**	**2,287**	**$2,714,971**	**$1,187**

Sources: GAO analysis of RUS, EDA, Reclamation, and Corps data.

[a]The total number of grants and loans does not equal the total number of projects because, in some cases, projects received a combination of both grants and loans.

[b]Data not applicable.

Figure 1: RUS Funded Rural Water Supply and Wastewater Projects, Fiscal Years 2004 through 2006



Source: GAO analysis of RUS data.

Figure 2: EDA Funded Rural Water Supply and Wastewater Projects, Fiscal Years 2004 through 2006

Source: GAO analysis of EDA data.

Figure 3: Reclamation Funded Rural Water Supply Projects, Fiscal Years 2004 through 2006

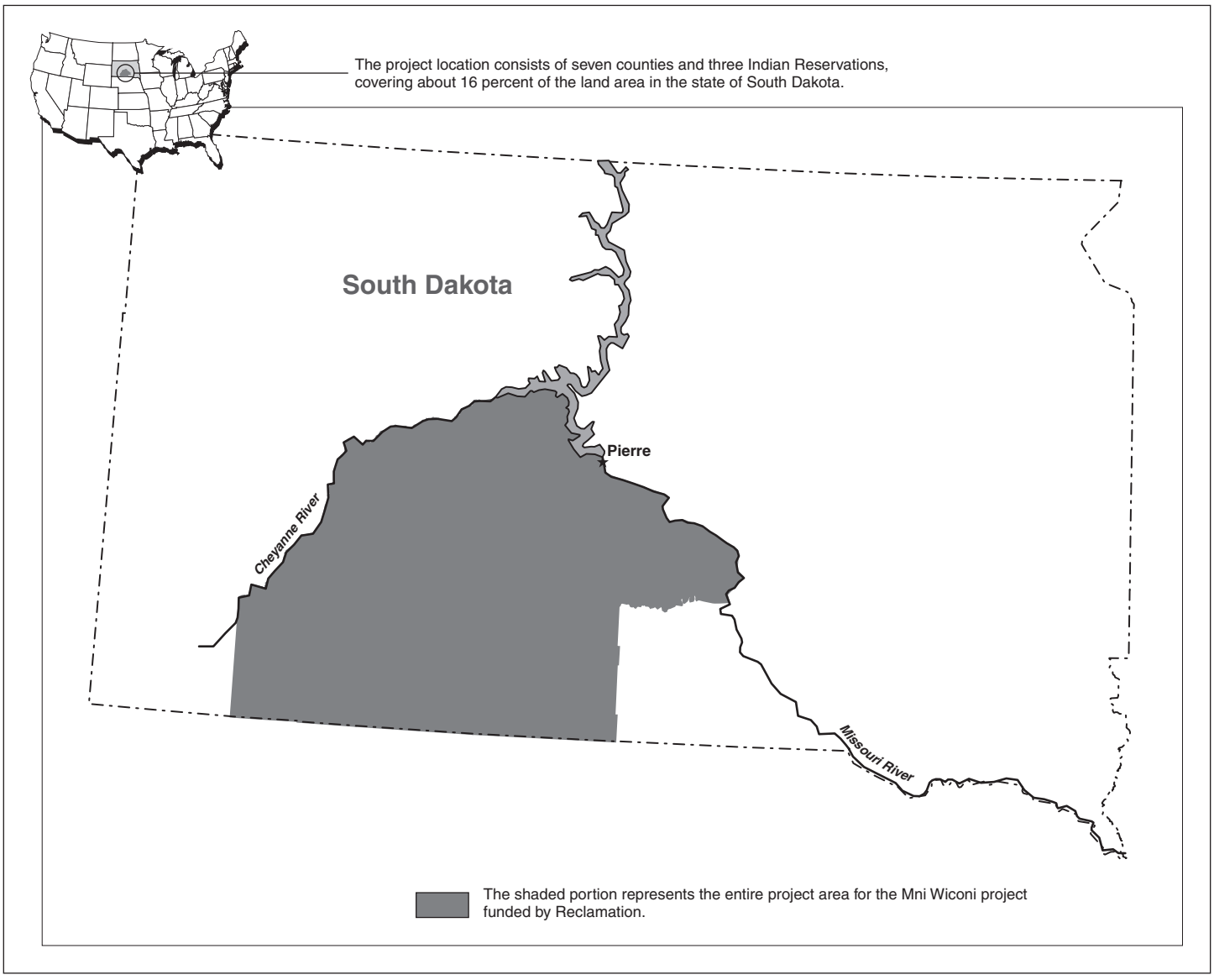
Source: GAO analysis of Reclamation data.

Figure 4: Corps Funded Rural Water Supply and Wastewater Projects, Fiscal Years 2004 through 2006

Source: GAO analysis of Corps data.

RUS provided the majority of the funding to the largest number of projects, while Reclamation provided the largest amount of funding per project. As table 1 shows, the average RUS grant was approximately $680,000 per project, while the average Reclamation grant was about $22 million per project. EDA and Corps grants averaged about $1 million and $800,000 per project, respectively. The average Reclamation grant amount was significantly larger than the grant amounts provided by the other agencies because Reclamation provided funding to a relatively small number of large regional water supply projects that span multiple communities. For example, during fiscal years 2004 through 2006, Reclamation obligated nearly $87 million of the about $459 million estimated total cost for the Mni Wiconi project. This project will provide potable water to about 51,000 people in rural communities spanning seven counties and three Indian Reservations. The Mni Wiconi project covers approximately 12,500 square miles of the state of South Dakota or roughly 16 percent of the state's total land area. Figure 5 shows the location of the Mni Wiconi project area.

Figure 5: Location of the Mni Wiconi Project, South Dakota



Sources: GAO and Reclamation.

In contrast, the other three agencies primarily provided funding to relatively smaller scale projects located in single communities. For example, Penns Grove, New Jersey, a community with a population of about 5,000, received an $800,000 EDA grant to upgrade a wastewater treatment plant with an estimated total project cost of $1.16 million.

Similarly, according to Corps officials, Monticello, Kentucky, a community with a population of about 6,000, received about $312,500 from the Corps for two sewer line extensions with total project costs of about $435,000. This community also received about $1 million from RUS for water and sewer line upgrades with an estimated total project cost of about $1.4 million.

Agencies Fund Similar Rural Water Supply and Wastewater Projects, but their Eligibility Criteria Vary

While the types of projects RUS, EDA, Reclamation, and the Corps fund are similar, varying agency eligibility criteria can limit funding to certain communities based on their population size, economic need, or geographic location. Specifically, RUS and EDA have established nationwide programs with standardized eligibility criteria and processes under which communities compete for funding. In contrast, Reclamation and the Corps have historically provided funding to congressionally authorized projects in certain geographic locations, without standardized eligibility criteria. Table 2 shows the types of projects each agency funds, the funding mechanisms they use, and their eligibility criteria.

Table 2: Type of Rural Water Projects, Funding Mechanisms, and Eligibility Criteria of Four Federal Agencies

	Type of project		Funding mechanism		Eligibility criteria				
Federal agency	Water supply	Waste-water	Grant	Loan	Project must meet standardized national criteria	Project must serve a city or town with a population of 10,000 or less[a]	Project area is geographically restricted by statute	Project area must be economically distressed	Project must provide economic development in the region
RUS	X	X	X	X	X	X			
EDA	X	X	X		X			X[b]	X[c]
Corps	X	X	X[d]				X		
Reclamation	X		X				X		

Sources: GAO analysis of RUS, EDA, Reclamation, and Corps regulations and program guidance.

[a]Project may also serve an unincorporated rural area, regardless of the area's population.

[b]EDA defines an area as economically distressed if it meets one of the following three conditions: (1) an unemployment rate that is at least 1 percent greater than the national average, (2) a per capita income that is 80 percent or less of the national average, or (3) has experienced or is about to experience a special need arising from changes in economic conditions.

[c]Economic development consists of the creation or retention of higher skilled, higher wage jobs and/or the attraction of private capital investment.

[d]In some cases, projects are funded through reimbursable payments from the Corps for project costs already accrued.

RUS, EDA, Reclamation, and the Corps Fund Similar Rural Water Supply and Wastewater Projects

The rural water projects that RUS, EDA, Reclamation, and the Corps fund are similar, and all four agencies use similar funding mechanisms. While Reclamation primarily provides funding for water supply projects, RUS, EDA, and the Corps fund both water supply and wastewater projects. These projects primarily include the construction or upgrading of water or wastewater distribution lines, treatment plants, and pumping stations. For example, all four agencies funded water line expansions or upgrades in either residential or commercial areas. RUS, EDA, and the Corps also funded sewer line extensions into either residential or commercial areas.

RUS and EDA Have Nationwide Water Supply and Wastewater Programs with Standard Eligibility Criteria

RUS and EDA have established nationwide programs with standardized eligibility criteria and processes under which communities compete for funding. Specifically, RUS' eligibility criteria require projects to be located in a city or town with a population of less than 10,000 or an unincorporated rural area, regardless of the area's population. EDA's eligibility criteria require projects to be located in economically distressed communities, regardless of the size of the community served, and the project must also create or retain jobs.

RUS Only Provides Funding for Water Supply and Wastewater Projects Located in Rural Areas

RUS' eligibility criteria require water supply or wastewater projects to serve rural areas. A project must be located in a city or town with a population of less than 10,000 or in an unincorporated rural area regardless of the population. For example, St. Gabriel, Louisiana, with a population of about 6,600, received RUS funding to expand sewer lines to connect residents to a wastewater treatment plant. Similarly, Laurel County Water District No. 2, which provides potable water to about 17,000 residents who live in unincorporated rural areas of southeastern Kentucky between the cities of London, Kentucky, and Corbin, Kentucky, received RUS funding to upgrade a water treatment plant to accommodate potential growth opportunities in the area. Table 3 provides the number of RUS funded rural water supply and wastewater projects by state for fiscal years 2004 through 2006.

Table 3: Number of RUS Funded Rural Water Supply and Wastewater Projects by State, Fiscal Years 2004 through 2006

State	Number of rural water supply projects	Number of rural wastewater projects	Number of combined rural water supply and wastewater projects	Total
Alabama	38	16	0	**54**
Alaska	1	2	6	**9**
Arizona	18	6	0	**24**
Arkansas	93	23	7	**123**
California	47	31	2	**80**
Colorado	15	4	2	**21**
Connecticut	2	7	0	**9**
Delaware	4	5	0	**9**
Florida	13	10	6	**29**
Georgia	12	8	0	**20**
Hawaii	3	0	0	**3**
Idaho	30	20	4	**54**
Illinois	84	18	4	**106**
Indiana	17	31	2	**50**
Iowa	39	35	0	**74**
Kansas	28	17	1	**46**
Kentucky	76	28	3	**107**
Louisiana	65	19	0	**84**
Maine	30	35	2	**67**
Maryland	14	14	2	**30**
Massachusetts	18	11	0	**29**
Michigan	42	53	0	**95**
Minnesota	16	34	10	**60**
Mississippi	99	15	6	**120**
Missouri	56	57	4	**117**
Montana	22	12	0	**34**
Nebraska	34	14	1	**49**
Nevada	13	11	0	**24**
New Hampshire	9	6	4	**19**
New Jersey	4	21	2	**27**
New Mexico	47	17	3	**67**
New York	93	41	0	**134**
North Carolina	40	23	5	**68**
North Dakota	31	5	4	**40**
Ohio	19	46	1	**66**

State	Number of rural water supply projects	Number of rural wastewater projects	Number of combined rural water supply and wastewater projects	Total
Oklahoma	29	24	2	**55**
Oregon	16	15	2	**33**
Pennsylvania	10	48	2	**60**
Rhode Island	10	3	1	**14**
South Carolina	33	10	7	**50**
South Dakota	34	17	6	**57**
Tennessee	90	24	9	**123**
Texas	116	43	12	**171**
Utah	21	4	1	**26**
Vermont	13	11	2	**26**
Virginia	27	28	4	**59**
Washington	28	13	5	**46**
West Virginia	54	16	2	**72**
Wisconsin	23	27	1	**51**
Wyoming	7	3	1	**11**
Total	**1,683**	**981**	**138**	**2,802**

Source: GAO analysis of RUS data.

To apply for RUS funding for a water supply or wastewater project, a community must submit a formal application. Once the formal application is submitted, communities then compete for funding with other projects throughout the state. In general, RUS officials in the state office rank each proposed project according to the project's ability to alleviate a public health issue, the community's median household income, and other factors. As applications are reviewed and ranked on a rolling basis, RUS officials in the state office generally decide which projects will receive funding until all funds are obligated for the fiscal year.

RUS provides both grants and loans for eligible projects, and communities must meet certain requirements depending upon the type of assistance they are requesting. For example, RUS grants can be used to finance up to 75 percent of a project's cost based on a number of factors including a community's financial need and median household income. Alternatively, to receive a loan, the community must certify in writing, and RUS must determine, that the community is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms. For projects also funded through RUS loans, RUS requires the community to charge user fees that, at a minimum, cover the costs of operating and maintaining the water system while also meeting the

required principal and interest payments on the loan. For example, RUS provided the Wood Creek Water District, located in Laurel County, Kentucky, a $1 million grant and a $7.98 million loan for a major water treatment plant expansion. A Wood Creek official told us that the water district had attempted to obtain a loan from a commercial lender; however, the loan would have had an interest rate of 7 percent and a term of 20 years, which would have rendered the project financially unfeasible. According to RUS, Wood Creek was able to receive a loan with an interest rate of 4.3 percent and a term of 40 years, thereby significantly reducing the annual loan payments. RUS also required Wood Creek to slightly increase its user fees to support the operation and maintenance of the water system and cover the loan repayment.

EDA Provides Funding to Projects in Areas Experiencing Economic Distress

EDA's eligibility criteria require water supply or wastewater projects to be located in an economically distressed area, regardless of the area's population size. EDA defines an area as economically distressed if it meets one of the following three conditions: the area has (1) an unemployment rate that is at least 1 percent greater than the national average, (2) a per capita income that is 80 percent or less of the national average, or (3) has experienced or is about to experience a special need arising from changes in economic conditions. The project must also create or retain long-term private sector jobs and/or attract private capital investment. For example, Assumption Parish Waterworks District No.1 in Napoleonville, Louisiana, received EDA funding to upgrade water service to two sugarcane mills. The community qualified for the funding because Assumption Parish met EDA's criteria for unemployment and per capita income. The water supply project allowed the sugarcane mills to maintain and expand their operations, saving 200 existing jobs, creating 17 new jobs, and attracting $12.5 million in private investment. Table 4 provides the number of EDA funded rural water supply and wastewater projects by state for fiscal years 2004 through 2006.

Table 4: Number of EDA Funded Rural Water Supply and Wastewater Projects by State, Fiscal Years 2004 through 2006

State	Number of rural water supply projects	Number of rural wastewater projects	Number of combined rural water supply and wastewater projects	Total
Alabama	4	1	4	**9**
Alaska	0	0	1	**1**
Arkansas	0	1	3	**4**
California	2	1	0	**3**
Colorado	0	1	0	**1**
Florida	1	0	0	**1**
Georgia	0	4	2	**6**
Idaho	0	0	2	**2**
Illinois	3	1	0	**4**
Indiana	1	2	1	**4**
Iowa	3	0	0	**3**
Kansas	0	0	1	**1**
Kentucky	2	2	4	**8**
Louisiana	1	2	1	**4**
Maine	0	1	0	**1**
Michigan	1	0	2	**3**
Minnesota	0	3	1	**4**
Mississippi	2	0	2	**4**
Missouri	1	0	1	**2**
Montana	2	0	0	**2**
Nebraska	4	0	0	**4**
Nevada	0	1	0	**1**
New Jersey	1	1	0	**2**
New Mexico	0	0	1	**1**
New York	1	1	1	**3**
North Carolina	4	4	1	**9**
North Dakota	0	0	1	**1**
Ohio	0	1	3	**4**
Oklahoma	1	0	2	**3**
Oregon	1	0	0	**1**
Pennsylvania	1	3	1	**5**
South Carolina	2	3	1	**6**
South Dakota	1	1	0	**2**
Tennessee	2	6	0	**8**
Texas	2	0	3	**5**

State	Number of rural water supply projects	Number of rural wastewater projects	Number of combined rural water supply and wastewater projects	Total
Utah	0	0	2	**2**
Vermont	0	1	0	**1**
Virginia	1	1	0	**2**
Washington	1	1	0	**2**
West Virginia	3	1	5	**9**
Wisconsin	0	0	4	**4**
Total	**48**	**44**	**50**	**142**

Source: GAO analysis of EDA data.

To apply for EDA funding for a water supply or wastewater project, the community must submit a preapplication to an EDA Regional Office. If the proposed project is found eligible, the community must then submit a formal application to an EDA Regional Office. The Regional Office then prioritizes and makes funding decisions that are forwarded to EDA headquarters for approval. These decisions are based upon, among other things, how the project promotes innovative, entrepreneurial, or long-term economic development efforts. EDA applications are reviewed on a rolling basis, and funding decisions are made until all of the funds for the fiscal year are obligated.

EDA provides grants for eligible projects that may finance 50 to 100 percent of a project's total costs based on a number of factors including an area's level of economic distress. For example, the London-Laurel County Industrial Development Authority located in Laurel County, Kentucky, qualified for an EDA grant because the county has a per capita income of $14,165, which is 66 percent of the national average. Because Laurel County's per capita income was between 60 to 70 percent of the national average, EDA's grant could fund no more than 60 percent of the project's total cost. The project received a $950,000 grant, which covered 50 percent of the $1.9 million total project cost to construct water and sewer line extensions for an industrial park. The new occupants of this industrial park were expecting to create 425 new jobs and provide $20.9 million in private investment.

Reclamation and the Corps Provide Congressionally Directed Funding for Specific Projects, without Standard Eligibility Criteria

Reclamation and the Corps have not historically had rural water supply and wastewater programs; rather they have provided funding to specific projects or programs in certain geographic locations under explicit congressional authorizations. Although the Corps continues to provide assistance to projects under specific congressional authorizations, many of which are pilot programs, the Rural Water Supply Act of 2006[11] directed Reclamation to establish a rural water supply program with standardized eligibility criteria.

Reclamation Funds Specific Congressionally Authorized Projects and Is Also Establishing a Rural Water Supply Program

Reclamation provides grants to individual rural water supply projects in eligible communities for which the Congress has specifically authorized and appropriated funds. These grants finance varying amounts of a project's total costs depending upon the specific authorization. According to a program assessment conducted by the Office of Management and Budget (OMB), the Congress has chosen Reclamation to fill a void for projects that are larger and more complex than other rural water projects and which do not meet the criteria of other rural water programs. For example, the Mni Wiconi Project Act of 1988, as amended, directs Reclamation to provide funding to three Indian tribes and seven counties for a rural water supply project in South Dakota that encompasses 16 percent of state's total land area. For the Mni Wiconi project, Reclamation grants provide funding for 100 percent of the project costs on Indian lands and 80 percent of the project costs on non-Indian lands. Table 5 provides the number of Reclamation funded rural water supply projects by state for fiscal years 2004 through 2006.

Table 5: Number of Reclamation Funded Rural Water Supply Projects by State, Fiscal Years 2004 through 2006

Dollars in thousands		
State	**Number of rural water supply projects**	**Funds obligated**
Montana	2	$33,197
Nebraska	1	213
New Mexico	3	2,053
North Dakota	1	35,510
South Dakota	4[a]	169,212
Total	**11**	**$240,185**

Source: GAO analysis of Reclamation data.

[11]Pub. L. No. 109-451 (Dec. 22, 2006).

[a]One of the four rural water supply projects located in South Dakota is also located in portions of southwestern Minnesota and northwestern Iowa.

While rural water supply projects are outside of Reclamation's traditional mission, according to Reclamation officials, the agency became involved in such projects because individual communities or groups of communities proposed projects directly to the Congress. In response, the Congress created specific authorizations for these rural water supply projects, and Reclamation was designated responsibility for funding and overseeing the construction of the projects. Because Reclamation is responding to Congressional direction in implementing these projects, it has not established eligibility criteria for communities or prioritized these projects for funding. In a May 11, 2005 testimony, the Commissioner of the Bureau of Reclamation indicated that the agency would like more authority to plan and oversee the development and construction of rural water supply projects.

In 2006, the Congress passed the Rural Water Supply Act directing Reclamation to develop a rural water supply program. Within 1 year, Reclamation was required to develop standardized criteria to determine eligibility requirements for rural communities and prioritize funding requests under this program. Further, the act directed Reclamation to assess within 2 years how the rural water supply projects funded by Reclamation will complement those being funded by other federal agencies. Reclamation is now beginning to address these requirements, including: (1) developing programmatic criteria to determine eligibility for participation and (2) assessing the status of authorized rural water supply projects and other federal programs that address rural water supply issues. According to a Reclamation official, the agency plans to complete these requirements by August 2008 and December 2008, respectively. Reclamation officials also said the development of a rural water supply program will, among other things, allow Reclamation to be directly involved in the planning, design, and prioritization of rural water supply projects and provide recommendations to the Congress regarding which projects should be funded for construction. Projects recommended for funding by Reclamation must still receive a specific congressional authorization for design and construction.

The Corps Funds Congressionally Authorized Projects, Usually through Pilot Programs

The Corps funds rural water supply and wastewater projects under specific congressional authorizations, many of which are pilot programs, and makes funding available to specific communities or programs in certain geographic areas. For example, a section of the Water Resources Development Act of 1999, as amended, authorized a pilot program that

directed the Corps to provide funding to water supply and wastewater projects to communities in Idaho, Montana, rural Nevada, New Mexico, and rural Utah. When directed to fund these types of projects, the Corps provides either grants or reimbursements for project costs incurred by the community. To receive reimbursements, a community submits invoices received from its contractors to the Corps, and the Corps generally reimburses the community up to 75 percent of project costs. Table 6 provides the number of Corps funded rural water supply and wastewater projects by state for fiscal years 2004 through 2006.

Table 6: Number of Corps Funded Rural Water Supply and Wastewater Projects by State, Fiscal Years 2004 through 2006

State	Number of rural water supply projects	Number of rural wastewater projects	Number of combined rural water supply and wastewater projects	Total
Arkansas	1	0	0	**1**
California	3	1	1	**5**
Idaho	2	5	0	**7**
Kentucky	0	14	0	**14**
Louisiana	0	0	2	**2**
Michigan	0	6	0	**6**
Minnesota	3	6	0	**9**
Mississippi	2	8	2	**12**
Montana	2	2	0	**4**
Nevada	4	12	0	**16**
New Mexico	3	5	2	**10**
New York	0	3	0	**3**
North Carolina	0	2	0	**2**
Ohio	7	10	1	**18**
Pennsylvania	6	8	4	**18**
Tennessee	1	0	0	**1**
Utah	5	4	1	**10**
West Virginia	0	7	0	**7**
Wisconsin	2	2	0	**4**
Total	**41**	**95**	**13**	**149**

Source: GAO analysis of Corps data.

Even though the Corps provides congressionally directed funding to specific geographic areas through these pilot programs, eligibility criteria and the degree to which projects compete for funding can differ between programs. For example, the Corps' Southern and Eastern Kentucky

Environmental Improvement Program is available only to communities located in 29 counties in southeastern Kentucky. The program requires these communities to submit formal applications, which are prioritized and ranked annually against all received applications. The Corps, in conjunction with a nonprofit organization, selects projects for funding based on certain factors such as economic need. For example, the Wood Creek Water District submitted a formal application and received approximately $500,000 in reimbursements—about 72 percent of the total project costs—to extend sewer service to a school and 154 households who live near the school. In contrast, the Corps' Rural Utah Program is available to communities in 24 counties and part of another county that the Congress designated as rural. This program requires communities in these counties to submit a request letter that includes, among other things, a brief project description and an estimate of total project costs. Request letters are considered for funding on a rolling basis by Corps officials, and no other formal eligibility criteria exist. For example, Park City, Utah, submitted a letter that provided a project description and the estimated total cost for the project. According to a Corps official, the Corps evaluated the letter and provided approximately $300,000 in reimbursements—or about 60 percent of the total project costs—for the replacement of water and sewer lines in Park City's Old Town area.

While the Corps funds projects carried out under these pilot programs as directed by the Congress, it does not request funds for them as part of its annual budget process because, according to Corps officials, these types of projects fall outside the Corps' primary mission of navigation, flood control, and ecosystem restoration. This position was reiterated in a May 11, 2007, policy document released by OMB, which stated that funding of such local water supply and wastewater projects is outside of the Corps' mission, costs taxpayers hundreds of millions of dollars, and diverts funds from more meritorious Corps Civil Works projects.

When the Congress authorized the Corps to fund these various pilot programs, it also required the agency to evaluate the effectiveness of several of them and recommend to the Congress whether these pilot programs should be implemented on a national basis. The Corps has completed 9 of the 12 required evaluations. Of the completed evaluations, only four made recommendations—all in favor of the establishment of a national program. The other five evaluations either did not make the required recommendation or stated that the agency had not yet funded enough projects to effectively evaluate the program. However, we found that between fiscal years 2004 and 2006, the Corps provided funding to over 100 rural water supply and wastewater projects under pilot programs,

and it is unclear why the Corps has still not completed all of the evaluations required by the Congress. In the absence of the outstanding evaluations and recommendations, the Congress does not have information on whether, collectively, the projects carried out under the Corps' pilot programs merit continued funding, duplicate other agency efforts, or should be implemented on a national basis.

Conclusions

The Congress has determined that RUS, EDA, and now Reclamation should provide funding for rural water projects as part of their overall missions and target federal assistance to certain communities based on their population size, economic need, or geographic location. However, for the Corps, the Congress has not yet determined whether funding of rural water supply projects should permanently be included within the agency's water portfolio. To help inform congressional decision making on this issue, the Corps was required to evaluate its various water supply and wastewater pilot programs and recommend to the Congress whether these programs should be continued. However, the Corps has not consistently provided the information required by the Congress even though it has completed over 100 rural water projects under various pilot programs. As a result, the Congress does not have the information it needs to determine whether the Corps' projects meet a previously unmet rural water need or duplicate the efforts of other agencies. Such information is important for making decisions on how to allocate limited federal resources in a time when the nation continues to face long-term fiscal challenges.

Recommendation for Executive Action

To ensure that the Congress has the information it needs to determine whether the Corps should continue to fund rural water supply and wastewater projects, we recommend that the Secretary of Defense direct the Commanding General and the Chief of Engineers of the U.S. Army Corps of Engineers to provide a comprehensive report on the water supply and wastewater projects that the Corps has funded under its pilot programs and determine whether these pilot programs duplicate other agency efforts and should be discontinued, or whether these pilot programs address an unmet need and should be expanded and made permanent at a national level.

Agency Comments and Our Evaluation

We provided the Departments of Agriculture, Commerce, Defense, and the Interior with a draft of this report for review and comment. The Department of Defense concurred with GAO's findings and recommendation, and its written comments are included in appendix III.

The Department of the Interior also agreed with GAO's findings, and its written comments are included in appendix IV. The Departments of Agriculture and Commerce provided us with technical comments, which we have incorporated throughout the report, as appropriate.

We will send copies of this report to interested congressional committees; the Secretaries of Agriculture, Commerce, Defense, and the Interior; and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff has any questions about this report, please contact me at (202) 512-3841, or Mittala@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

Sincerely yours,

Anu K. Mittal
Director, Natural Resources
and Environment

Appendix I: Scope and Methodology

To determine how much federal funding the U.S. Department of Agriculture's Rural Utilities Service (RUS), the Department of Commerce's Economic Development Administration (EDA), the Department of the Interior's Bureau of Reclamation (Reclamation), and the U.S. Army Corps of Engineers (Corps) obligated for rural water supply and wastewater projects for fiscal years 2004 through 2006, we collected and analyzed obligation and project location data submitted by each agency. We determined that the data were sufficiently reliable for the purposes of this report. To identify water supply and wastewater projects that were located in rural areas, we applied the definition of rural used by RUS, EDA, and Reclamation to the geographic location each agency provided for its water supply and wastewater projects.[1] Because the Corps does not have a definition for rural areas, we asked the Corps to use the U.S. Census Bureau's density-based urban and rural classification system to identify projects that it funds in rural areas. This classification system divides geographical areas into urban areas, urban clusters, and nonurban areas and clusters. Using this information, we determined that Corps funded water supply and wastewater projects were in rural areas if they were located in: (1) any nonurban areas or clusters, (2) urban clusters with a population of less than 20,000, and (3) areas of Nevada and Utah that the Congress specifically defined as rural in the Water Resources Development Act of 1999, as amended. Table 7 provides the definition of rural area used by each agency for water supply and wastewater projects.

[1]The federal government has not established a formal or consistent definition of what constitutes a "rural" area. The term "rural" is defined differently by the Congress and each federal agency according to agency guidelines and individual project or program authorizations. Depending on the agency, rural areas may be defined as ranging from less than 2,500 to less than 50,000 persons.

Table 7: Agencies' Definitions of Rural Area

Agency	Definition of rural area
RUS	Rural areas include incorporated cities and towns with a population of 10,000 or fewer and unincorporated areas, regardless of population.
EDA	Rural areas include areas the U.S. Census Bureau designates as rural that are within or outside of a metropolitan statistical area.[a]
Reclamation	Rural areas include a community, or group of communities, each of which has a population of not more than 50,000 inhabitants.[b]
Corps	The Corps does not define rural areas.[c]

Sources: RUS, EDA, Reclamation, and the Corps.

[a]Metropolitan statistical areas are based on county-level data with central cities of at least 50,000 residents and surrounding contiguous counties that are metropolitan in character and economically tied to the core counties. Rural areas may be within or outside such areas.

[b]Reclamation's definition of a rural area was established by Pub. L. No. 109–451 (Dec. 22, 2006).

[c]Corps officials agreed to use the U.S. Census Bureau's density-based urban and rural classification system to determine which Corps projects were in rural areas. Using this approach, we determined for purposes of this report, rural areas for Corps projects include all nonurbanized areas and urban clusters with populations of less than 20,000, as well as areas in Nevada and Utah that the Congress specifically defined as rural for Corps projects.

To determine the extent to which each RUS, EDA, Reclamation, and the Corps eligibility criteria and the projects they fund differed, we reviewed and analyzed applicable statutes, agency regulations, and policy guidance. In addition, we used a nonprobability sample to select 16 rural water supply and wastewater projects, including at least one project funded by each of the four agencies, and conducted site visits to each of the selected projects. These projects were selected based upon project type (water supply or wastewater), geographic location, type of assistance (loan, grant, or a combination of these) and the federal agency funding the project. During the site visits, we interviewed local officials from the communities receiving funding and federal agency officials responsible for managing the funding of those projects. We also collected and analyzed project-specific documentation such as applications and letters of intent. Table 8 lists the 16 projects we selected for site visits and the type of project, location, type of assistance, and funding agency(ies) for each project.

Table 8: Rural Water Supply and Wastewater Projects Selected for GAO Site Visits

Project name	Project type	Project location	Type of assistance[a]	Funding agency[b]
Ascension Parish Environmental Infrastructure	Water supply and wastewater	Ascension Parish, La.	Grant	Corps
Assumption Parish Water Works District No. 1 Water System Improvements	Water supply	Assumption Parish, La.	Grant	EDA
Bluffdale Water Storage	Water supply	Bluffdale City, Utah	Loan	RUS
Jamestown Water Treatment Plant Upgrade	Water supply	Jamestown, Ky.	Grant	EDA
			Loan and grant	RUS
Laurel County Water District No. 2, Water Treatment Plant Expansion	Water supply	Laurel County, Ky.	Loan and grant	RUS
London-Laurel County Industrial Development Authority No. 2 Water and Sewer Line Extensions	Water supply and wastewater	London, Ky.	Grant	EDA
Wood Creek Water District Water Treatment Plant Expansion	Water supply	London, Ky.	Grant	EDA
			Loan and grant	RUS
Wood Creek Water District Sewer Line Extension	Wastewater	London, Ky.	Grant	Corps
College St. Sewer Line Extension	Wastewater	Monticello, Ky.	Grant	Corps
Downtown Water and Sewer Line Replacement	Water supply and wastewater	Monticello, Ky.	Loan and grant	RUS
Webster St. Sewer Line Extension	Wastewater	Monticello, Ky.	Grant	Corps
Park City Municipal Corporation Prospect Avenue Water and Sewer Line Replacement Project	Water supply and wastewater	Park City, Utah	Grant	Corps
Penns Grove Wastewater Treatment Plant Upgrade	Wastewater	Penns Grove, N.J.	Grant	EDA
Snyderville Basin Water Supply Master Plan	Water supply	Park City, Utah	Grant	Corps
Mni Wiconi Rural Water Supply Project	Water supply	S. Dak.	Grant	Reclamation
St. Gabriel Wastewater Treatment Sewer Line Extension	Wastewater	St. Gabriel, La.	Loan and grant	RUS

Source: GAO.

[a]In some cases, Corps projects are funded through reimbursable payments from the Corps for project costs already accrued.

[b]In some instances, rural communities may be eligible to receive funding from multiple agencies. As a result, RUS and EDA signed a memorandum of understanding regarding projects that qualify for both EDA and RUS funding. For example, if EDA decides to provide a grant to a RUS funded project, EDA transfers those funds to RUS which then administers and distributes them.

To determine the overhead costs and number of personnel needed to support rural water supply and wastewater projects, we collected and analyzed agency policy guidance and interviewed agency officials to determine the extent to which RUS, EDA, Reclamation, and the Corps tracks these data for rural water supply and wastewater projects. We also

requested these data from each agency to the extent they could provide them to us.

We conducted our work from September 2006 through August 2007 in accordance with generally accepted auditing standards.

Appendix II: Agency Overhead Cost Information, Fiscal Years 2004 through 2006

The U.S. Department of Agriculture's Rural Utilities Service (RUS), the Department of Commerce's Economic Development Administration (EDA), the Department of the Interior's Bureau of Reclamation (Reclamation), and the U.S. Army Corps of Engineers (Corps) each calculate their overhead costs, commonly referred to as general and administrative (G&A) costs,[1] and the number of personnel needed to manage rural water supply and wastewater projects, referred to as full-time equivalents (FTE),[2] differently. This appendix describes how each agency calculates these costs for rural water supply and wastewater projects.

RUS and EDA

RUS and EDA each receive separate appropriations to fund their agencywide G&A costs. These agencies do not track these costs or FTEs on a project-by-project basis. Therefore, we were unable to calculate each agencies total G&A costs and total FTEs by rural water supply and wastewater project.

Reclamation

Reclamation divides water supply project costs into two categories, direct costs and indirect costs.[3] According to Reclamation, if all activities are correctly and consistently charged, then all activities assigned to indirect costs can be considered overhead costs for a project. Although a standard formula is used to determine indirect cost rates, which are applied as a percentage of labor, Reclamation officials stated that the rates may vary by area office and region depending primarily on the amount of costs that can be charged directly to a project. Furthermore, according to documentation provided by Reclamation officials, these indirect cost rates were updated each fiscal year. As can be seen in table 9, Reclamation provided the

[1]G&A costs typically cover items such as office supplies, buildings, equipment, and personnel expenses.

[2]An FTE reflects the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, and compensatory time off and other approved leave categories are considered to be "hours worked" for purposes of defining FTE employment.

[3]Direct costs include all costs that can be specifically and readily identified with an output such as a vehicle being used solely by an employee on a specific project. Indirect costs include costs that are jointly or commonly used to produce two or more outputs and typically include overhead costs such as a secretary whose job is to provide support to an area office in which there are a variety of projects and programs.

following indirect costs and FTE estimates for the 11 rural water projects for which Reclamation obligated funds for fiscal years 2004 through 2006.

Table 9: Total Obligations, Indirect Obligations, and FTEs for Reclamation's 11 Rural Water Supply Projects, Fiscal Years 2004 through 2006

Dollars in thousands

Fiscal year	Total obligations	Indirect obligations[a]	Percentage of indirect obligations	FTEs
2004	$77,237	$1,194	1.5%	27
2005	$81,077	$1,253	1.5%	26
2006	$81,871	$1,147	1.4%	25

Source: GAO analysis of Reclamation data.

[a]Indirect obligations is the term used by Reclamation to indicate obligations made for indirect project costs.

Corps

The Corps' G&A costs for its headquarters and divisions are funded through a general expenses appropriation. G&A costs at the district level are distributed to projects and programs through the use of predetermined rates established by the district Commander at the beginning of each fiscal year and are automatically distributed to specific projects or programs based on the direct labor charged to the projects or programs.

There are two types of overhead costs charged by the districts, general and administrative overhead and departmental overhead. General and administrative overhead includes administrative and support costs incurred in the day-to-day operations of a district. Departmental overhead includes costs incurred within technical divisions at the district headquarters that are not attributable to a specific project or program. While a standard formula is used to determine overhead rates, these rates may vary by district depending on a variety of factors including, geographic location—an office in a high cost area will cost more to operate than a similar office in a rural area, and composition of the workforce—an office staffed by senior-level employees will cost more to operate than an office staffed by junior-level employees.

The Corps G&A costs and FTE data for its water supply and wastewater projects are calculated at the program level and cover projects in both rural and urban areas. The Corps could not readily provide these data for obligations on a rural water supply and wastewater project basis.

Appendix III: Comments from the Department of Defense

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
108 ARMY PENTAGON
WASHINGTON DC 20310-0108

AUG 20 2007

Ms. Anu Mittal
Acting Director, Natural Resources and Environment
U.S. General Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Mittal:

This is the Department of Defense (DoD) response to the GAO draft report 07-1094, "WATER RESOURCES: Four Federal Agencies Provide Funding for Rural Water Supply and Wastewater Projects," dated July 23, 2007, (GAO Code 360754)."

The Department of Defense concurs with the GAO recommendation that the Corps provide a report on the water supply and wastewater projects that the Corps has funded under its pilot programs and prepare a recommendation on whether these programs should be discontinued, or whether these pilot programs address an unmet need and should be expanded and made permanent at a national level (see enclosure).

Very truly yours,

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Enclosure

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GAO DRAFT REPORT DATED JULY 23, 2007
GAO-07-1094 (GAO CODE 360754)

"WATER RESOURCES: FOUR FEDERAL AGENCIES PROVIDE FUNDING FOR RURAL WATER SUPPLY AND WASTEWATER PROJECTS"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION: The GAO recommends that Secretary of Defense direct the Commanding General and the Chief of Engineers of the U.S. Army Corps of Engineers to provide a comprehensive report on the water supply and wastewater projects that the Corps has funded under its pilot programs and determine whether these pilot programs duplicate other agency efforts and should be discontinued, or whether these programs address an unmet need and should be expanded and made permanent at a national level. (p. 22/GAO Draft Report)

DOD RESPONSE: Concur. The Secretary of Defense will direct the Commanding General and the Chief of Engineers of the U.S. Army Corps of Engineers to prepare the report on the Corps water supply and wastewater projects by 15 February 2008. The report will determine which, if any, of these projects are considered pilot programs and include a recommendation on whether they should be continued.

Appendix IV: Comments from the Department of the Interior

United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, D.C. 20240

IN REPLY REFER TO:

AUG 2 1 2007

Ms. Anu K. Mittal
Director, Natural Resources and Environment
Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Mittal:

The Department of the Interior and the Bureau of Reclamation would like to thank you for the opportunity to review the Government Accountability Office's (GAO) draft report titled *WATER RESOURCES: Four Federal Agencies Provide Funding for Rural Water Supply and Wastewater Projects,* (Report No. GAO-07-1094).

GAO provided us a copy of their Statement of Facts to discuss at the official exit conference. Because GAO sufficiently addressed our concerns in the draft audit report, we have no further comment.

If you have any questions or require additional information, please contact Elizabeth Cordova-Harrison, Director, Management Services Office, Bureau of Reclamation, at 303-445-2783.

Sincerely,

Kameran L. Onley
Assistant Deputy Secretary

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Anu K. Mittal, (202) 512-3841, mittala@gao.gov

Staff Acknowledgments

In addition to the individual named above, Ed Zadjura, Assistant Director; Patrick Bernard; Diana Goody; John Mingus; Lynn Musser; Alison O'Neill; Matthew Reinhart; and Barbara R. Timmerman made significant contributions to this report.

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