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JUL 10 1975

Mr. Jack E. Ravan  
Regional Administrator  
U.S. Environmental Protection Agency  
1421 Peachtree Street, N.E.  
Atlanta, Georgia 30309

Dear Mr. Ravan:

We recently completed a survey in your region of selected financial and administrative aspects of the air pollution control grant program, including uses by grantees of grant funds and of financial controls. In addition to work at the regional office, we visited the following grantees:

State

- Tennessee Department of Public Health, Air Pollution Control Division
- Georgia Department of Natural Resources, Environmental Protection Division

Local

- Metropolitan Health Department of Nashville and Davidson County (Tennessee)
- Chattanooga - Hamilton County (Tennessee) Air Pollution Control Bureau
- Fulton County (Georgia) Health Department

We found generally that applicable policies and procedures were being followed and, consequently, we do not plan any expanded audit at this time. Several exceptions, which we consider minor, came to our attention in the course of our survey and were discussed with regional officials who promised corrective actions which we believed were satisfactory. For your information, and for any application the matters discussed may have with respect to other grantees in the region not included in our survey, we are summarizing them below:

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### FUND ADVANCES

EPA policy recognizes that the degree to which individual grantees need fund advances at the beginning of a grant year varies, and that the amount of advance should be negotiated with grantees. The maximum percentage permitted, unless the specifics of a need for a larger advance is shown in the grant agreement, was reduced from 25 to 10 by EPA Order 5700.4, dated May 22, 1974.

The grantees included in our survey had each been given an initial advance equivalent to 25 percent of the grant amount in fiscal year 1975 without their needs having been individually negotiated. It is our understanding from discussions with regional officials that this practice prevailed, as well, with respect to all fiscal year 1975 air pollution control grants awarded by the region. We recommend that, in the future, the amount of advances be negotiated individually with grantees.

### LEVEL OF NON-FEDERAL RECURRING EXPENDITURES

The Metropolitan Health Department of Nashville and Davidson County did not spend the amount of non-Federal funds which it had budgeted for recurring-type expenditures in fiscal year 1973 and, consequently, expenditures were short by about \$4,380 of equalling such expenditures for fiscal year 1972. EPA Regulations (40 CFR 35.530) require that such expenditures in the year a grant is awarded not be less than those of the previous year. We recommend that the local agency be required to compensate for the fiscal year 1973 shortfall of non-Federal recurring expenditures by increasing its share of such expenditures in the current fiscal year by an equivalent amount.

### INDIRECT COST RATE

The Metropolitan Health Department of Nashville and Davidson County was reimbursed for the Federal share of indirect program costs in fiscal year 1974 at the rate of 36 percent of direct costs, a rate which had been conditionally approved in the grant agreement pending audit by EPA or another Federal agency. In September 1974, the Department of Health, Education and Welfare, as a result of its audit of the grantee's indirect cost allocation plan, negotiated a provisional rate of 33.8 percent with the grantee to apply to fiscal year 1974 Federal grant programs. The grantee, however, continued to report and claim indirect costs to the air pollution control program at the higher rate. We recommend that the Federal share of the adjustment from application of the lower rate, which we calculated to be \$1,859, be recovered from the grantee.

PRIOR YEAR ADJUSTMENTS

The Tennessee Department of Public Health had not reported a balance of \$7,614 shown in the accounts as due the Federal Government at June 30, 1974, for various prior year adjustments, such as sale of assets and liquidation of outstanding obligations which exceeded actual expenses. It is our understanding that the grantee refunded the balance in May 1975.

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We appreciate the courtesy and assistance given us by employees of the regional office during the survey, and request that we be advised of any actions taken relative to these matters.

Sincerely yours,

MARVIN COLBS

Marvin Colbs  
Regional Manager

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*7-10-75*