



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



# Examination of Costs Claimed Under American Recovery and Reinvestment Act Cooperative Agreement 2A-97706701 Awarded to Grace Hill Settlement House, St. Louis, Missouri

Report No. 13-R-0367

August 30, 2013



Scan this mobile  
code to learn more  
about the EPA OIG.

## Report Contributors:

Brad Jones  
Lela Wong  
Michael Owen  
Patrick McIntyre

## Abbreviations

CA	Cooperative Agreement
CFR	Code of Federal Regulations
DEQ	Diesel Emission Quantifier
DERA	Diesel Emissions Reduction Act
DFH	Direct Fire Heater
EPA	U.S. Environmental Protection Agency
FTE	Full Time Equivalent
FY	Fiscal Year
GH	Grace Hill Settlement House
ODC	Other Direct Costs
OIG	Office of Inspector General
OMB	Office of Management and Budget
RFP	Request for Proposal
VIN	Vehicle Identification Number

**Cover photo:** School bus retrofitted under the cooperative agreement.  
(EPA OIG photos taken in St. Louis, Missouri)

## Hotline

To report fraud, waste, or abuse, contact us through one of the following methods:

**email:** [OIG\\_Hotline@epa.gov](mailto:OIG_Hotline@epa.gov)  
**phone:** 1-888-546-8740  
**fax:** 202-566-2599  
**online:** <http://www.epa.gov/oig/hotline.htm>

**write:** EPA Inspector General Hotline  
1200 Pennsylvania Avenue, NW  
Mailcode 2431T  
Washington, DC 20460



# At a Glance

## Why We Did This Review

The U.S. Environmental Protection Agency Office of Inspector General conducted this examination of the costs claimed by Grace Hill Settlement House under American Recovery and Reinvestment Act cooperative agreement 2A-97706701. The OIG conducted this examination to determine whether the costs claimed were reasonable, allocable, and allowable in accordance with applicable federal requirements and the terms and conditions of the CA. The OIG also reviewed GH's compliance with selected Recovery Act requirements and accomplishment of the objective of the CA.

## This report addresses the following EPA Goal or Cross-Cutting Strategy:

- *Taking action on climate change and improving air quality.*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:  
[www.epa.gov/oig/reports/2013/20130830-13-R-0367.pdf](http://www.epa.gov/oig/reports/2013/20130830-13-R-0367.pdf)

## ***Examination of Costs Claimed Under American Recovery and Reinvestment Act Cooperative Agreement 2A-97706701 Awarded to Grace Hill Settlement House, St. Louis, Missouri***

### What We Found

GH's financial management system did not meet federal standards. In particular:

- Procurements did not meet the competition or cost and price analysis requirements of the Code of Federal Regulations in 40 CFR §30.43 and §30.45.
- The contract administration system did not meet the requirements of 40 CFR §30.47.
- Unallowable costs were not segregated and financial management data were not properly supported as required under 40 CFR §30.21 and 2 CFR Part 230.
- Labor charges did not comply with the requirements of 2 CFR Part 230.
- Cash draws did not meet immediate cash needs requirement and were not properly documented as required under 40 CFR §30.22 and §30.21.

As a result of the issues noted, we questioned \$1,615,343 of the \$2,250,031 claimed under the CA. In addition, due to lack of adequate documentation from GH, we were unable to determine whether GH accomplished the objective of the CA or met the job reporting requirements of Recovery Act Section 1512.

### Recommendations

We recommend that the Region 7 regional administrator disallow questioned costs of \$1,615,343 and recover \$1,423,028 of that amount under the CA. We also recommend that, prior to any future EPA awards, the regional administrator verify that GH has adequate controls related to such issues as procurement, contract administration, cost allowability, labor charges, and cash draws. In addition, we recommend that the regional administrator verify that GH reported the number of jobs created and retained in accordance with Recovery Act requirements and Office of Management and Budget guidance. We also recommend that the regional administrator verify that the vehicles GH reported as retrofitted under the CA were completed in accordance with workplan.

GH disagreed with our recommendations. GH believed the contract costs were fair and reasonable, no federal funds were over-drawn, and it has exceeded the emission objective of the CA. GH believed no costs should be recovered, with an exception to a limited amount of personnel costs. Region 7 did not comment on the draft report.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

August 30, 2013

**MEMORANDUM**

**SUBJECT:** Examination of Costs Claimed Under American Recovery and Reinvestment Act  
Cooperative Agreement 2A-97706701 Awarded to Grace Hill Settlement House,  
St. Louis, Missouri  
Report No. 13-R-0367

**FROM:** Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

**TO:** Karl Brooks, Regional Administrator  
Region 7

This is our report on the subject examination conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. In accordance with established audit-resolution procedures, EPA managers will make final determinations concerning matters in this report.

Due to the length of the recipient's comments and the need to redact the sensitive information, appendices A and B are presented in separate files.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide us your proposed management decision on the findings and recommendations contained in this report before you formally complete resolution with the recipient. Your proposed management decision is due in 120 days, or on December 30, 2014. To expedite the resolution process, please email an electronic version of your proposed management decision to [adachi.robert@epa.gov](mailto:adachi.robert@epa.gov).

Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public. If your response contains such data, you should identify the data for redaction or removal. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Richard Eyermann, acting assistant inspector general for the Office of Audit, at (202) 566-0565 or [eyermann.richard@epa.gov](mailto:eyermann.richard@epa.gov); or Robert Adachi, product line director, at (415) 947-4537 or [adachi.robert@epa.gov](mailto:adachi.robert@epa.gov).

# Table of Contents

## Chapters

<b>1</b>	<b>Independent Accountant’s Report</b> .....	1
<b>2</b>	<b>Introduction</b> .....	4
	Purpose .....	4
	Background .....	4
<b>3</b>	<b>Results of Examination – Costs Claimed</b> .....	5
	Recommendation .....	7
	Recipient Comments .....	7
	OIG Response.....	8
<b>4</b>	<b>Financial Management System Did Not Meet Federal Standards</b> .....	10
	Procurements Did Not Meet Competition Requirements .....	10
	Procurements Did Not Meet Cost and Price Analysis Requirements .....	12
	Contract Administration Did Not Meet Federal Requirements .....	13
	Costs Claimed Included Ineligible and Unsupported Costs.....	15
	Labor Charges Did Not Comply With Federal Requirements.....	16
	Cash Draws Did Not Comply With Federal Requirements.....	17
	Conclusion.....	18
	Recommendation .....	18
	Recipient Comments .....	19
	OIG Response.....	19
<b>5</b>	<b>Compliance With Recovery Act Requirements</b> .....	21
	Recommendation .....	21
	Recipient Comments .....	22
	OIG Response.....	22
<b>6</b>	<b>Meeting the Objective of the CA</b> .....	23
	Lack of Adequate Verifiable Details in Final Progress Report .....	23
	Not All Retrofitted Vehicles Were Available for Inspection .....	23
	GH Did Not Consistently Document Work Completion Verification.....	24
	Conclusion .....	25
	Recommendation .....	25
	Recipient Comments .....	25
	OIG Response.....	26
	<b>Status of Recommendations and Potential Monetary Benefits</b> .....	27

## Appendices

<b>A</b>	<b>GH's Comments on the Draft Report .....</b>	<b>28</b>
<b>B</b>	<b>OIG Evaluation of GH's Comments .....</b>	<b>29</b>
<b>C</b>	<b>Distribution .....</b>	<b>30</b>

# Chapter 1

## Independent Accountant's Report

As part of our continued oversight of the assistance agreements the U.S. Environmental Protection Agency awarded under the American Recovery and Reinvestment Act of 2009, we have examined the costs claimed under cooperative agreement 2A-97706701, awarded to Grace Hill Settlement House. We conducted the examination to determine whether the costs claimed under the CA were allowable in accordance with the Code of Federal Regulations under 2 CFR Part 230, *Cost Principles for Non-Profit Organizations*, and 40 CFR Part 30, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, as well as the terms and conditions of the CA. We also reviewed GH's accomplishment of the objective of the CA and compliance with the following Recovery Act requirements:

- Buy American requirements under Section 1605.
- Davis-Bacon Act wage requirements under Section 1606.
- Job reporting requirements under Section 1512.

The CA covered the period June 1, 2009, through June 30, 2011. By receiving the award, GH accepted responsibility for compliance with the requirements stated above. Our responsibility is to express an opinion on GH's cost claim and compliance based on our examination.

Our examination was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. We examined, on a test basis, evidence supporting management's assertions and performed such other procedures as we considered necessary under the circumstances. We believe our examination provides a reasonable basis for our opinion.

We conducted our fieldwork from January 31, 2012, to April 17, 2013. We performed the following steps:

- Reviewed the EPA project and grant files to obtain an understanding of the project.
- Interviewed GH personnel to obtain an understanding of the project as well as the recipient's policies and procedures.
- Reviewed GH's supporting documents for cash draws and costs claimed under the CA.
- Reviewed evidence for work completion and conducted site visits to verify work completion.

- Reviewed evidence for compliance with Recovery Act and other federal requirements.

GH is responsible for establishing and maintaining effective internal control over compliance with the requirements of 40 CFR Part 30, 2 CFR Part 230, Recovery Act, and the terms and conditions of the CA. In planning and performing our examination, we considered GH's internal control over compliance with the requirements listed above as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of GH's internal control.

Our consideration of internal control over compliance with the above requirements was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A significant deficiency is a deficiency in internal control, or combination of deficiencies, that adversely affects that entity's ability to initiate, authorize, record, process, or report data reliably in accordance with the applicable criteria or framework, such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material misstatement of the subject matter will not be prevented or detected.

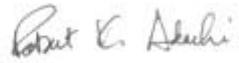
Our examination disclosed the following material weaknesses in GH's financial management system:

- Procurements did not meet the competition or cost and price analysis requirements of 40 CFR §30.43 and §30.45.
- The contract administration system did not meet 40 CFR §30.47 requirements.
- Unallowable costs were not segregated and financial management data were not properly supported as required under 40 CFR §30.21 and 2 CFR Part 230.
- Labor charges did not comply with 2 CFR Part 230 requirements.
- Cash draws did not meet immediate cash needs requirements and were not properly documented as required under 40 CFR §30.22 and §30.21.

As a result of the issues noted above, we questioned \$1,615,343 of the \$2,250,031 claimed under the CA. In our opinion, because of the effect of the issues described above, the costs claimed do not meet, in all material respects, the requirements of

40 CFR Part 30, 2 CFR Part 230, and the terms and conditions of the CA for the period ended June 30, 2011.

In addition, due to lack of adequate documentation from GH, we were unable to verify whether GH accomplished the objective of the CA or met the job reporting requirements of Section 1512 of the Recovery Act.

A handwritten signature in dark ink, appearing to read "Robert K. Adachi". The signature is written in a cursive style with some loops and flourishes.

Robert K. Adachi  
Director, Forensic Audits  
August 30, 2013

# Chapter 2

## Introduction

### Purpose

The EPA Office of Inspector General conducted this examination to determine whether the costs claimed under the CA were reasonable, allocable, and allowable in accordance with the applicable federal requirements and the terms and conditions of the CA. The OIG also reviewed GH's compliance with selected Recovery Act requirements and accomplishment of the objective of the CA.

### Background

The Diesel Emission Reduction Act was signed into law in August 2005 under Title VII, Subtitle G, of the Energy Policy Act of 2005. DERA authorized \$200 million per year from fiscal years 2007 through 2011 (or a total of \$1 billion) for the EPA to fund programs to achieve significant reductions in diesel emission from fleets operating in areas designated by the agency as poor air quality areas. Congress appropriated a total of \$219.1 million for the EPA under DERA for FYs 2008 through 2011. Congress appropriated an additional \$300 million to the EPA in FY 2009 for DERA assistance agreements under the Recovery Act.

The EPA awarded the CA on July 20, 2009, to GH under the Recovery Act. The purpose of the award was to provide emission reduction technology for delivery trucks, long-haul trucks, school buses, tugboats, fire engines, ambulances, airport support equipment, dump trucks, and street sweepers. The technology used in this project was expected to save 87,884 gallons of diesel fuel per year, help companies retain current employees, and create new jobs. This project was expected to reduce air pollution, resulting in benefits to the health of residents and workers in the St. Louis region.

The EPA awarded the CA under 40 CFR Part 30. The grant budget and project period was from June 1, 2009, to June 30, 2011. Estimated total project cost is \$2,256,420, consisting of federal share of \$2,000,000 and required recipient match of \$256,420. The final federal financial report submitted by GH on September 29, 2011, shows total project costs of \$2,250,031, consisting of federal share of \$1,985,679 and recipient matches of \$264,352. The \$264,352 included required matches and voluntary matches.

# Chapter 3

## Results of Examination – Costs Claimed

Our examination disclosed that GH’s financial management system did not meet federal standards. Specifically, we identified the following material weaknesses:

- Procurements did not meet the competition or cost and price analysis requirements of 40 CFR §30.43 and §30.45.
- The contract administration system did not meet 40 CFR §30.47 requirements.
- Unallowable costs were not segregated and financial management data were not properly supported as required under 40 CFR §30.21 and 2 CFR Part 230.
- Labor charges did not comply with 2 CFR Part 230 requirements.
- Cash draws did not meet immediate cash needs requirements and were not properly documented as required under 40 CFR §30.22 and §30.21.

As a result, we questioned \$1,615,343 of the \$2,250,031 claimed under the CA. We summarize the costs claimed and questioned below:

**Table 1: Summary of questioned costs**

Cost category	Amount claimed	Costs questioned		Note
		Ineligible	Unsupported	
Personnel	\$70,870	-	64,617	1
Fringe benefit costs	15,300		14,841	1
Contract costs	2,091,009	61,450	1,443,922	2
Other direct costs	(16,496) <sup>1</sup>	2,430	429	3
Indirect costs	91,037	27,654		4
Costs incurred in excess of claimed amount	(1,689)			
<b>Total project costs</b>	<b>\$2,250,031</b>	<b>91,534</b>	<b>1,523,809</b>	
Total costs questioned	1,615,343			
Allowable project costs	634,688			
Allowable federal share (88.65%)	562,651			
Cumulative cash draw	1,985,679			
<b>Amount due EPA</b>	<b>\$1,423,028</b>			

Sources: Amounts claimed are from GH’s accounting records and the final federal financial report GH submitted to the EPA under the CA. Costs questioned are based on OIG’s analysis of the data.

<sup>1</sup> Actual amount of other direct costs claimed is \$28,907. The negative amount shown above is due to other direct costs of \$45,403 being misclassified as contract costs in GH’s accounting records and in the federal financial report.

## Note 1: Fringe Benefits

We question personnel costs of \$64,617 and the associated fringe benefit costs of \$14,841 as unsupported because GH's labor charges for full-time employees did not comply with federal requirements. Chapter 4 of this report, in the section **Labor Charges Did Not Comply With Federal Requirements**, discusses this issue in more detail.

## Note 2: Contract Costs

We question contract costs of \$1,505,372 consisting of the following:

- Ineligible costs of \$31,469 claimed in excess of the contract ceiling amounts.
  - Ineligible voluntary matches of \$29,981.
  - Unsupported costs of \$1,273,788 due to noncompliance with federal procurement regulations.
  - Unsupported costs of \$170,134 due to noncompliance with contract billing terms.
- a) Costs Claimed In Excess of Contract Ceilings. We question ineligible costs of \$31,469 claimed in excess of the contract ceiling amounts because these costs did not comply with contract terms. Detailed discussion of this issue is in the chapter 4 section **Contract Administration Did Not Meet Federal Requirements**, in the subsection *Invoice Payments Not Consistent With Contract Terms*.
- b) Voluntary Matches. We question ineligible voluntary matches of \$29,981 because these costs are included in the total project costs claimed but are not eligible for federal cost sharing. Voluntary matches were established under the contracts as costs to be paid by contractors in addition to the amounts for EPA cost sharing.
- c) Noncompliance With Federal Procurement Regulations. We question unsupported costs of \$1,273,788 because GH did not comply with federal procurement regulations. As a result, we are unable to determine whether the costs claimed were fair and reasonable. Detailed discussion of this issue is in the chapter 4 sections **Procurements Did Not Meet Competition Requirements** and **Procurements Did Not Meet Cost and Price Analysis Requirements**. Actual amount questioned due to noncompliance with federal procurement regulations is \$1,322,857. However, \$49,069 of the \$1,322,857 is already included in items a) and b) above. The net amount questioned for noncompliance with federal procurement regulations is reduced to \$1,273,788 to avoid duplication of questioned costs.

- d) Noncompliance With Contract Billing Terms. We question unsupported costs of \$170,134 because contractor billings did not comply with contract terms. Unit prices billed by the contractors and paid under the CA did not match unit prices in the contracts. Detailed discussion of this issue is in the chapter 4 section **Contract Administration Did Not Meet Federal Requirements**, in the subsection *Invoice Payments Not Consistent With Contract Terms*. Actual amount questioned for noncompliance with billing terms is \$210,062. Some of the \$210,062 is already included in items a) and c) above. The net amount questioned is reduced to \$170,134 to avoid duplication of questioned costs.

### **Note 3: Other Direct Costs**

We question ineligible other direct costs of \$2,430 for items that are not allocable to or allowable under the CA. We also question ODCs of \$429 for which GH could not provide supporting documentation. Detailed discussion of this issue is in the chapter 4 section **Costs Claimed Included Ineligible and Unsupported Costs**.

### **Note 4: Indirect Costs**

Ineligible indirect cost of \$27,654 is questioned because the \$91,037 GH claimed exceeded the \$63,383 approved in the grant budget. According to 40 CFR §30.25(c)(2)(iii), the recipient is required to obtain prior approval from the EPA when shifting costs between the budgeted indirect and direct costs. The EPA has confirmed that this approval was not requested by GH or granted by the EPA; therefore, the \$27,654 is not allowable.

## **Recommendation**

We recommend that the Region 7 regional administrator:

1. Disallow \$1,615,343 in questioned costs and recover \$1,423,028 of that amount under the CA. If GH provides documentation that meets appropriate federal requirements or demonstrates the fairness and reasonableness of the contract prices, the amount to be recovered may be adjusted accordingly.

## **Recipient Comments**

The OIG received comments on the draft report from GH on June 3, 2013. Region 7 did not provide any comments. We held an exit conference with GH and Region 7 on July 11, 2013, to discuss GH's comments and our final position on the issues.

GH disagreed with our recommendation to disallow and recover costs under the CA. GH believed the contract costs were fair and reasonable, no federal funds were over-drawn, and it has exceeded the emission objective of the CA. GH believed no costs should be recovered, with an exception for a limited amount of personnel costs. GH also submitted after-the-fact documentation prepared or obtained from its vendors and contractors attempting to support GH's comments. GH's complete written response is included in appendix A. Along with the response, GH provided 105 exhibits. Due to volume, exhibits are not included in the report, but are available upon request.

GH provided additional comments on June 28, 2013, subsequent to the formal draft response. GH stated that we referred to the voluntary matches as amounts "paid" in excess of contract ceilings. GH said no part of the voluntary matches was actually paid. The costs were additional amounts over and above the project partners' share of the contract prices, which the project partners absorbed. GH also disagreed with characterizing these costs as ineligible. GH believed the voluntary matches in excess of the contract ceilings should get "extra credit" and not bear on any cost recovery by GH or payment by the EPA. GH said it did not claim or receive cost recoveries or payments in excess of the contract amounts.

## OIG Response

GH's response did not change our recommendation to question and recover costs. GH acknowledged that the labor and fringe benefit costs were charged based on budget allocation, which did not meet the federal requirement. Except for the camera and accessory costs of \$200.76 and \$11.98, GH's comments and supporting documentation continued to show that ODCs questioned were unallowable and indirect costs claimed exceeded the amount established in the grant budget. However, GH provided a contract modification to support some of the costs not billed in accordance with contract terms. In addition, GH provided an adequate explanation on the nonresponsive bidder issue. We have adjusted our report and the recommended questioned costs and recovery amount to reflect these changes.

The remaining response and documentation provided by GH on the procurement and contract administration issues were prepared during the draft report response period. These explanations and documentation did not exist at the time of procurement. Consideration of these after-the-fact documentation is within the discretion of EPA management and would require that the agency make an exception in accordance with 40 CFR §30.4.

Details of our responses to GH's comments are in appendix B.

GH's comments on the voluntary matches referred to the language in chapter 4 section **Contract Administration Did Not Meet Federal Requirements**, in the subsection *Invoice Payments Not Consistent With Contract Terms*. We agreed

with GH that these costs were not actually paid. However, the costs were claimed. In the final federal financial report, GH claimed “recipient share required” of \$258,420 and total “recipient share of expenditures” of \$264,352. In its accounting records, GH did not distinguish the “recipient share required” from the addition expenditures. The \$264,352 included recipient matches incurred in excess of contract ceilings which carried over to the total project costs claimed of \$2,250,031. Since voluntary matches and costs incurred in excess of contract ceilings are not eligible for federal cost sharing, these costs were appropriately classified as ineligible costs for federal cost share calculation. We have changed the report from voluntary matches “paid” to “claimed” in excess of contract ceilings.

# Chapter 4

## Financial Management System Did Not Meet Federal Standards

GH's financial management system did not meet federal standards. Specifically, our examination disclosed the following material weaknesses:

- Procurements did not meet the competition or cost and price analysis requirements of 40 CFR §30.43 and §30.45.
- The contract administration system did not meet 40 CFR §30.47 requirements.
- Unallowable costs were not segregated and financial management data were not properly supported as required under 40 CFR 30.21 and 2 CFR Part 230.
- Labor charges did not comply with 2 CFR Part 230 requirements.
- Cash draws did not meet immediate cash needs requirements and were not properly documented as required under 40 CFR §30.22 and §30.21.

As a result of the issues noted above, we questioned \$1,615,343 of the \$2,250,031 claimed under the CA.

### Procurements Did Not Meet Competition Requirements

GH awarded five contracts for school bus retrofit, totaling \$793,340, which did not comply with the federal competition requirements. The unit price, which was the same for all five contracts, was not based upon full and open competition. Although GH's internal procurement policies and procedures complied with federal standards, GH's staff did not always follow these procedures.

Title 40 CFR §30.43 requires all procurement transactions to be conducted in a manner that provides, to the maximum extent practical, free and open competition. The regulation further states that the recipient should be alert for noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade.

GH's procurement policy establishes the following price quotation or bidding requirement based on the purchase price:

- Oral or written quotations from at least two responsible vendors for all purchases in excess of \$5,000 but less than \$25,000.
- Written quotations from at least two responsible vendors for all purchases of at least \$25,000 but less than \$100,000.

- Competitive proposals from at least three responsible vendors for all purchases of \$100,000 or more.

### ***Contract Price Was Not Competitively Bid***

The unit price used for the five contracts was not based on open competition. Instead, the unit price was based upon GH's negotiations with the main project partner (owner of the vehicles to be retrofitted) and bidders subsequent to the open bid process.

The five contracts were for the same type of work. The contracts were awarded to install direct fire heaters on school buses. GH's initial request for proposal did not specify the type or model of DFH because GH and its main project partner were unclear as to the type and model of DFH needed. GH left the RFP open to let bidders propose the appropriate DFH types.

Four companies submitted bids in response to the RFP. Each company bid for a varying number of buses and with different DFH models. Two days before the bid due date, the main project partner informed GH that only Webasto products were acceptable. According to GH staff, this decision was not communicated to the bidders. As it turned out, only two of the four bidders (who we will refer to as "Company A" and "Company B") submitted bids using the Webasto DFH. Although Company A was the lowest bidder, in our opinion, the four bid prices were not comparable because the bid prices for the remaining two bidders were not based on the Webasto DFH.

Before the contract was signed, the project partner requested that additional features be added to the DFH, including a flame resistant box, crash sensor, and driver option to turn on the heater. Instead of allowing all original bidders to resubmit bids for the Webasto DFH with these additional features, GH negotiated with the project partner and bidders to arrive at a unit price. GH also decided to split the work between two selected companies (Company A and another bidder, which we will refer to as "Company C"). Once the unit price and the quantity split were determined, GH asked the two selected companies to submit quotes for the determined quantities using the negotiated unit price. GH ultimately awarded the contracts to these two companies at the negotiated unit price.

GH was unable to provide documentation to support the unit price negotiations or the division of work. During our fieldwork, GH staff verbally explained that the other two companies were not asked to rebid because Company B was late submitting its original bid and Company D had too much other work under the CA. In our opinion, Company B's late submittal on the original bid should not have affected the rebid, as the rebid would have established a new bid due date. GH should have, at a minimum, allowed Companies A and C to competitively bid on the new specifications instead of using the negotiated unit price. Further, GH's internal procurement policy required competitive proposals from at least three

responsible vendors for all purchases of \$100,000 or more. In this case, the initial award totaled \$656,792, consisting of \$567,162 awarded to Company A and \$89,630 to Company C. Negotiating the unit price instead of obtaining bids from three responsible vendors violated GH's internal policy. Since GH could not provide documentation to support the unit price, there is no assurance that the price was fair and reasonable. As a result, we question all costs claimed under the two contracts as unsupported costs.

When additional school buses became available for the same type of retrofit, GH again split the work. The work was split among three companies – referred to above as Companies A, B, and C. GH explained that Company B, which was late submitting its original bid, came to the pre-bid meeting for the second phase of the bus retrofit and again expressed interest in the work; therefore, “in the spirit of fair and open process,” GH awarded Company B approximately 30 percent of the additional retrofit work. The three additional contracts were awarded at the same unit price as the original two contracts. We question the original contracts because there is no assurance that the unit price awarded was fair and reasonable. We also question the additional contracts for the same reason.

## **Procurements Did Not Meet Cost and Price Analysis Requirements**

GH's procurements under the CA did not always meet the federal requirements for cost and price analysis. GH awarded four contracts without documented cost or price analysis. Title 40 CFR §30.45 requires some form of cost or price analysis to be made and documented in the procurement files for every procurement action. Regulations state that price analysis may be accomplished by comparing submitted price quotes with market prices and discounts. Cost analysis is achieved through review and evaluation of each cost element to determine reasonableness, allocability, and allowability. Without the required cost or price analysis, there is no assurance that the contract prices were fair and reasonable.

### ***Tugboat Retrofit Contracts***

GH awarded two sole source contracts to the owner of the tugboats, or the project partner, without evidence of cost or price analysis. GH awarded the two contracts, with not-to-exceed amounts of \$79,895 and \$286,999. Both contracts required replacement of a propulsion engine and an auxiliary engine. The \$286,999 contract also required replacement of a crane engine. The contract prices consist of costs for equipment purchases and project partner's labor costs. There was no evidence of cost or price analysis on either of the contracts except for the cost of the auxiliary engine under the \$286,999 contract. As a result, we question all costs claimed under the two contracts as unsupported costs, with the exception of the costs of the auxiliary engine for the \$286,999 contract.

GH explained that it made sense to award the contracts to the project partner because tugboats were the project partner's main business. GH believed the price

was fair and reasonable because the project partner covered 25 percent of the costs.

We disagree with GH. The fact that the project partner contributed 25 percent of the costs is irrelevant for determining the fairness and reasonableness of the contract price. The 25 percent match requirement was imposed by GH on several of the project partners. Regardless of who received the retrofit contract, the project partner would have to cover 25 percent of the costs. There were other projects under the CA in which the project partner was not the retrofitting contractor but paid the required 25 percent match.

### ***Food Delivery Truck Contract***

GH awarded a contract for food delivery truck engine replacements without cost or price analysis. GH received one bid for the work and awarded the contract to the only bidder. Without cost or price analysis, there is no assurance that the price was fair and reasonable. As a result, we question the costs as unsupported.

### ***Drills and Crane Engine Replacement Contract***

GH awarded a contract for engine replacement for two drills and a crane without cost or price analysis. GH received one bid for the work and awarded the contract to the only bidder at the bid price of \$113,095.

GH staff stated that they used quotes for other similar retrofits, such as the tugboat propulsion engines and crane, as comparisons. However, this does not meet the federal requirement. As stated above under ***Tugboat Retrofit Contracts*** subsection, GH has not demonstrated that the prices for the tugboat propulsion engine and crane engine replacements were fair and reasonable since they were procured without cost or price analysis. The engines used for the tugboats also appear to be of a different type and class from the engines under this contract. In addition, GH did not have documentation for the stated comparison, as required under 40 CFR §30.45 and §30.46. Without cost or price analysis, there is no assurance that the price was fair and reasonable. As a result, we question the costs as unsupported.

## **Contract Administration Did Not Meet Federal Requirements**

GH did not have an adequate contract administration system to ensure accuracy of contract information and contractor conformance with the terms, conditions, and specifications of the contracts, as required under 40 CFR §30.47. We noted that GH:

- Awarded contracts that contained inaccurate information.
- Approved and paid contractor invoices that were not consistent with contract terms and conditions.
- Awarded contracts that contained conflicting terms.

### ***Contracts Contain Inaccurate Information***

GH did not have adequate controls to ensure the accuracy of the contract terms. We noted transposition errors in the contract unit price and the not-to-exceed amount. In addition, we noted a quantity error. The contract stated 115 vehicles instead of 94 vehicles. Without accurate contract information, the recipient would not be able to ensure contractors perform services and bill according to the parties' intent. This could subject the government to contract disputes.

Although the errors noted above had not resulted in actual contract disputes or billing errors, as the contracts referenced the bid packages, contract terms need to be accurate in order to protect the interest of all parties affected by the contract, including the EPA.

### ***Invoice Payments Not Consistent With Contract Terms***

GH did not have adequate controls to ensure that invoice payments to contractors were consistent with contract terms and conditions. Our review of the invoices indicated that 3 of the 10 contracts awarded under the CA contained invoices that were not billed at the unit prices established in the contracts. These invoices totaled \$210,062. GH paid the invoices and claimed the costs under the CA without adequately verifying the contract terms or modifying the terms as necessary. We also noted that the cumulative amounts claimed under 3 of the 10 contracts exceeded the contract ceilings. The excess amounts for the three contracts totaled \$31,469.

Title 40 CFR §30.47 requires a system for contract administration be maintained to ensure contractor conformance with the terms, conditions, and specifications of the contract and to ensure adequate and timely follow-up of all purchases. Title 40 CFR §30.27 establishes appropriate federal cost principles for determining allowable costs for each type of entity incurring the costs. The contracts GH awarded under the CA were to commercial organizations. According to 40 CFR §30.27(a), allowable costs for commercial organizations are determined in accordance with the provisions of the Federal Acquisition Regulation at 48 CFR Part 31. Under 48 CFR §31.201-2(a)(4), a cost is allowable only when the cost complies with the terms of the contract. These costs did not comply with the contract terms and, therefore, are unallowable under the contracts or the CA.

### ***Contracts Contain Mixed Terms***

GH awarded 5 of the 10 contracts under the CA with conflicting contract terms. One section of the contract would show a lump sum price while another suggested a unit price agreement. For example, one section of the contract would state:

Grace Hill shall pay contractor, as full and complete compensation for performance of the services required by this agreement, a total sum of \$\_\_\_\_ as detailed in Schedule A.

This language indicates a lump sum contract where GH would pay the contractor the stated sum for all of the tasks agreed to in Schedule A. However, the terms in Schedule A were for unit price contracts. Each line item in Schedule A of the contract showed a task to be performed and the number of units under the task with a not-to-exceed amount. Under a unit price contract, the contractor is paid at a fixed price per unit; the total amount may vary depending on the number of units provided but the total cost cannot exceed the not-to-exceed amount.

The mixed contract terms become especially problematic when one line item in the contract contains multiple unit prices and when the invoiced unit prices do not match the contract prices. We were unable to determine whether the lump sum prices or the unit prices prevail. We contacted GH to obtain clarification. GH explained that these were intended to be unit price contracts.

GH staff explained that the lump sum language was a standard template used for all contracts. Schedule A, with the unit price language, was added for the contracts under the CA with the intent to provide clarity on the scope of work and to specify the payment method for products or services. Due to the lack of contract knowledge by the procurement staff, the inconsistency in contract terms was not detected.

## **Costs Claimed Included Ineligible and Unsupported Costs**

GH did not have adequate controls to ensure that unallowable costs were segregated and that costs in the accounting system were properly supported. As a result, costs claimed included ineligible and unsupported costs. Title 2 CFR 230, Appendix A, Section A.2, requires that a cost be in accordance with the federal cost principles, allocable to the award, and adequately documented to be allowable under a federal award. Title 40 CFR §30.21 also requires the recipient to have written procedures to determine the reasonableness, allocability, and allowability of costs, and to ensure that costs are supported by source documentation.

Aside from the ineligible and unsupported contract costs explained above, GH claimed ODCs that are ineligible or unsupported. ODCs represent all direct costs other than personnel, fringe benefits, and contract costs. Examples of ODCs are costs relating to travel, supplies, meetings, and allocation of property support and computer support costs. Total ODCs claimed under the CA was \$28,907.

After segregating the allocated property support and computer support costs, as cost allocations were reviewed separately, there were 60 ODC transactions included in the claim. We selected 17 of the 60 transactions for review. Of the 17 transactions we reviewed, we identified nine ineligible cost transactions, totaling \$2,430. The ineligible costs were incurred for items that were not allocable to the CA or for food items that are expressly disallowed under 2 CFR

230, Appendix B, Section 14. In addition, we identified two transactions, totaling \$429, for which GH could not provide supporting documentation.

Although the unallowable ODC amount claimed under the CA is not material, the issue is significant when considering the number of transactions. Ineligible and unsupported costs represent about 65 percent of the transactions tested, or 18 percent of the total transactions. It raises concern when the same issue had been raised by the EPA during its onsite review in November 2010. GH needs to implement adequate controls to ensure that this issue is resolved.

## **Labor Charges Did Not Comply With Federal Requirements**

GH's labor charges for full-time employees did not comply with federal requirements. The recipient charged full-time labor costs to federal awards based on a budget percentage allocation rather than actual activities performed. In addition, hours recorded on timesheets were identified by funding source rather than by award. Title 2 CFR Part 230 requires that distribution of salaries and wages to federal awards be based on an after-the-fact determination of actual activities. We believe the noncompliance occurred because GH's full-time employees lack understanding of the federal requirements for labor charges. As a result, we have no assurance that the labor and related fringe benefit costs of \$79,459 claimed under the CA represent actual activities performed for the CA.

### ***Labor Charging Not Based on Actual Activities***

GH's labor hours charged to the CA for its two full-time employees did not comply with federal requirements. GH allocated the employees' work hours among the various projects based on budget percentages predetermined by GH's management. Federal cost principles under 2 CFR Part 230, Appendix B, Section 8.m.(1), states "[the] distribution of salaries and wages to awards must be supported by personnel activity reports." Section 8.m.(2) states "[reports] reflecting the distribution of activity of each employee must be maintained for all staff member (professional and nonprofessional) whose compensation is charged, in whole or in part, directly to awards." The regulation further states "[the] reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards."

### ***Timesheets Did Not Track Hours by Award***

Timesheets for full-time employees did not track hours by award. Instead, timesheet hours recorded were grouped by funding source. GH had two active EPA CAs from July 20, 2009, to December 31, 2010. GH recorded hours for both of the CAs in the timesheets as one line item, labeled as "EPA." These hours were then charged to the respective awards based on the budgeted percentages, as explained above. According to 2 CFR 230, Appendix A, Section A.2, a cost must

be allocable to be allowable under an award. Section A.4 states that a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. Without tracking the hours by award, the recipient would not be able to show benefits received by a particular award.

### ***Lack of Understanding of Federal Requirements***

Based on discussions with GH staff and our review of their correspondence with EPA Region 7, it appears that GH lacked an understanding of the federal requirements for labor charging. During our fieldwork, GH staff stated that, for most of the grant period, they did not understand how to demonstrate to the EPA the breakdown of labor hours between projects. In the June 9, 2011, determination letter for the 2009 single audit findings and the November 2010 onsite administrative assistance review findings, an EPA Region 7 official stated that GH was advised during an onsite visit in 2008 that its timesheets did not comply with federal requirements. GH personnel assured the region that they would change the timesheet to reflect actual time spent on grant activities. In the June 9, 2011, letter, the region asked GH to explain why corrections had not been completed. GH stated that staff and management were directed to complete separate timesheets for each contract, as opposed to modifying the timesheets to track all actual activities by award.

## **Cash Draws Did Not Comply With Federal Requirements**

GH's advance cash draws did not meet the immediate cash needs requirements under 40 CFR §30.22 and the terms and conditions of the CA. GH also did not always adequately document its draw calculations as required under 40 CFR §30.21. As a result, GH was unable to provide adequate details for some of the cash draws or demonstrate when the excess amounts drawn were eventually credited to the EPA.

Under 40 CFR §30.22(b), cash advances are limited to the minimum actual amounts immediately needed to carry out the purpose of the approved project. Title 40 CFR §30.22(b) also specifies that the timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient. Administrative condition 2 of the CA reiterated this requirement. Title 40 CFR §30.21(b)(5) requires the recipient to have adequate procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury payments for program purposes by the recipient. Title 40 CFR §30.21(b)(2) also requires the recipient to maintain records that adequately identify the source and application of funds for federally sponsored activities.

We reviewed 8 of the 24 cash draws under the CA for compliance with the immediate cash need requirements. The draws reviewed were paid by the EPA

prior to June 9, 2011, when GH was placed on a reimbursement method. Of the eight draws reviewed, three exceeded immediate cash needs. In addition, GH was unable to provide adequate details to support the calculation for one of the draws; therefore, we were unable to determine whether that cash draw met the immediate cash needs requirement.

Based on our review, the cumulative cash draw amount did not exceed the cumulative expenditures; therefore, we did not question the cash draw in excess of immediate cash needs in the sample items. However, due to the lack of adequate documentation on draw calculations, GH was unable to explain when some of the over-drawn cash was used for program payments or credited to the EPA.

## **Conclusion**

Based on the issues noted above, GH's financial management system did not meet the federal standards described under 40 CFR §30.21. As a result, we believe that the costs claimed do not meet, in all material respects, the applicable federal requirements and the terms and conditions of the CA.

## **Recommendation**

We recommend that the Region 7 regional administrator:

2. Verify, prior to any future EPA award, that the recipient has adequate controls to ensure that:
  - a) Procurement practices comply with federal regulations and the company's own procedures.
  - b) Contract personnel have adequate federal procurement knowledge.
  - c) Contract and bid information are accurate and complete.
  - d) Unallowable costs are properly segregated and financial management data are properly supported.
  - e) Labor charges comply with federal requirements.
  - f) Cash draws meet immediate cash needs and documentation requirements.

## Recipient Comments

GH disagreed with our recommendations. GH believed the contract costs paid were fair and reasonable, based on competition and cost and price analysis consistent with 40 CFR §30.43 and §30.45. GH also stated that it substantially met the contract administration requirements of 40 CFR §30.47 using its program manager's spreadsheet to manage vendor invoices and payments and through its close-out documentation. GH stated that the questioned other direct cost amount was immaterial and the limited costs questioned were allocable and reasonable and not expressly disallowed. Although GH acknowledged that personnel and fringe benefit costs charged to the project for its two full-time employees were based on budget allocations, GH stated that these costs in large part represent actual activities performed for the CA. GH stated that with exception to one to two inadvertent accounting errors, it has drawn and credited the EPA as timely as administratively feasible. In addition, GH provided a listing of internal control improvements it has implemented in response to our findings and recommendations.

GH also submitted documentation prepared or obtained from its vendors and contractors during the draft report response period attempting to support GH's comments. GH's complete written response is included in appendix A.

## OIG Response

GH's response did not change our position on the recommendations. GH acknowledged that the labor and fringe benefit costs were charged based on budget allocation, which did not meet the federal requirement. Except for the camera and accessory costs of \$200.76 and \$11.98, GH's comments and supporting documentation continued to show that ODCs questioned were unallowable. However, we modified some of the details on these issues. GH provided adequate explanation regarding the nonresponsive bidder issue under the **Contract Administration Did Not Meet Federal Requirements** section; therefore, we have removed the subsection **Awarding Contracts to Nonresponsive Bidders** from the report. GH also provided a contract modification to support some of the costs not billed in accordance with contract terms. Although we have adjusted the questioned amount based on GH's response, the overall contract administration issue remained in the report since GH did not provide documentation to adequately address the issue of inaccurate information in the contracts, invoices not consistent with contract terms, and contracts containing conflicting contract terms.

The remaining response and documentation provided by GH on the procurement and contract administration issues were prepared during the draft report response period. These explanations and documentation did not exist at the time of procurement. Consideration of the documentation is within the discretion of EPA

management and would require that the agency make an exception in accordance with 40 CFR §30.4.

Details of our responses to GH's comments are in appendix B.

# Chapter 5

## Compliance With Recovery Act Requirements

As part of our examination, we verified GH's compliance with Recovery Act Buy American requirements (Section 1605), Davis-Bacon Act wage requirements (Section 1606), and job reporting requirements (Section 1512). EPA Region 7 determined that the Buy American and Davis-Bacon Act wage requirements do not apply to the CA. Based on our understanding of the nature of the work and our review of the Recovery Act requirements, we agree with Region 7's determination and no further verification was deemed necessary.

With regard to the job reporting requirement, GH was unable to provide supporting documentation for the number of jobs it reported as created and retained under Recovery Act Section 1512. The Recovery Act requires each recipient that receives Recovery Act funds from a federal agency to submit a quarterly report with an estimate of the number of jobs created and the number of jobs retained by the project. The Office of Management and Budget issued various guidance documents to implement the Recovery Act requirements. On December 18, 2009, OMB issued guidance M-10-8 to update, among other things, the method for estimating the number of jobs created and retained. The guidance states that the estimate of the number of jobs created or retained by the Recovery Act should be expressed as "full time equivalents." To avoid overstating the number of other than full-time permanent jobs, OMB provided a formula for FTE calculation that converts part-time or temporary jobs into fractional FTE. The formula calculates FTEs using the total number of hours worked on the Recovery Act-funded project during the reporting quarter divided by the total number of hours in a full-time schedule for the quarterly.

Although GH submitted quarterly reports under Section 1512 of the Recovery Act, after numerous requests, it was unable to provide detailed calculations or supporting documentation. As a result, we are unable to verify whether the number of jobs GH reported as created and retained were accurate and in accordance with Section 1512 requirements, as supplemented by OMB guidance.

### Recommendation

We recommend that the Region 7 regional administrator:

3. Verify that the recipient reported the number of jobs created and retained in accordance with the requirements of Recovery Act Section 1512 and the guidance issued by OMB.

## Recipient Comments

GH disagreed with our recommendation. GH believed its final report showed substantial compliance with the Recovery Act job reporting requirements. GH stated that the final report set out the estimated FTEs funded at GH and the project partners based on participation estimates and vendor letters and emails. GH also said it followed the EPA's guidance to not use formulas, such as the Manufacturers of Emission Controls Association formula, to estimate the number of jobs created or retained. GH's complete written response is included in appendix A.

## OIG Response

Our position on this issue remains unchanged. We agree that the Manufacturers of Emission Controls Association formula referenced by the EPA is not an acceptable method for calculating jobs created or retained under the Recovery Act. OMB guidance documents were issued to implement the Recovery Act requirements. As stated in the draft report, OMB Guidance M-10-8 specified the method for estimating the number of jobs created and retained. According to the guidance, the number of jobs created and retained is to be expressed in terms of FTEs and are to be calculated using the total number of hours worked on the Recovery Act-funded project during the reporting quarter divided by the total number of hours in a full-time schedule for the quarter. GH did not provide the required supporting calculations. Therefore, we are unable to determine whether GH reported the jobs created and retained according to OMB guidance. Details of our responses to GH's comments are in appendix B.

## Chapter 6

### Meeting the Objective of the CA

We are unable to determine whether GH met the objective of the CA. The CA was awarded to install emissions reduction technology on various vehicles to reduce air pollution in the St. Louis region. In the final progress report submitted to the EPA on October 12, 2011, GH reported that it had completed substantially all work under the final CA workplan. GH also reported that the work completed provided an annual emission reduction of 960 tons, exceeding the expected reduction of 809 tons. We verified that the correct technology was installed on the items available for inspections, but we were unable to express an opinion as to whether GH met the objective of the CA due to the following:

- Lack of adequate verifiable details in GH's final progress report.
- Not all vehicles were available for inspection during our site visits.
- GH did not consistently document work completion verifications.

#### **Lack of Adequate Verifiable Details in Final Progress Report**

GH's final progress report submitted to the EPA did not include adequate details identifiable to the retrofitted vehicles. As part of the final progress report, GH provided a final fleet list—a listing of all vehicles GH retrofitted under the CA. However, the list did not include vehicle identification information. The final fleet list identified and grouped items by equipment class and engine type. An equipment class (or one line item in the report) may consist of 1 vehicle or over 50 vehicles. GH did not have supporting listings for the equipment class grouping or a complete listing of equipment with vehicle identification information that could facilitate physical inspections of the retrofitted vehicles. When asked, GH representatives said that the vehicle identification information was attached to the invoices. Based on our review of the documentation provided by GH, although many of the invoices included a listing of vehicle identification numbers, these VINs do not always correspond to equipment class groupings. GH also did not provide a complete listing of all VINs. In our opinion, GH is responsible for providing the necessary data to demonstrate work completion and facilitate verifications by the government.

#### **Not All Retrofitted Vehicles Were Available for Inspection**

Not all of the vehicles retrofitted under the CA were available for inspection. We made attempts to obtain a reasonable assurance about whether the work under the CA was completed by conducting three site visits. These site visits were to verify retrofit of school buses, a tugboat, and airport vehicles.

For our visit to the school bus yard, because we did not have a complete listing of all school buses retrofitted, we pre-selected buses from contractor invoices for inspection. However, when we arrived at the site, we learned that several factors made locating the pre-selected sample items extremely difficult. Some of the vehicles were out running the routes. Buses that were not scheduled for routes were randomly parked at the various bus yards. As a result, the only verification we were able to perform was walking through the bus yard and verifying that the correct technology was installed on the buses located at the yard. The same verification was performed during the airport site visit. We were advised that due to safety concerns and vehicle work schedules, our inspection of the vehicles would be limited to those units not deployed for service on the airport grounds.

The tugboat we selected for testing was not available for inspection until our final exit conference on July 11, 2013. Upon inspection, we found that the technology installed matched the contract and the bid documents, but not the project partner invoice. GH said it will work with the project partner to provide a satisfactory explanation to the EPA during audit resolution.

Due to these issues, we were unable to obtain a reasonable assurance that the vehicles reported as completed actually existed and had been retrofitted.

## **GH Did Not Consistently Document Work Completion Verification**

GH did not consistently document work completion verification. According to GH management, GH verified all contractor invoices for work completion with the project partners prior to making payments. Verification was either through site visits or telephone calls to project partners. When conducting site visits, instead of verifying a random selection of vehicles from the invoices, GH's staff would walk through the site and only verify what they saw. This method of verification did not provide assurance that all vehicles invoiced actually existed and were retrofitted since GH did not select items for verification from the complete universe (i.e., all items listed in the invoice). It only verified whether the vehicles at the site were completed according to specification. Furthermore, under either verification method (site visit or telephone call), GH did not maintain evidence to document actual vehicles verified.

According to GH management, GH's contractor invoice payment packages should contain a Contractor Invoice Submission form. The form is required to be completed and attached to the check request for contractor invoice payments. The form includes a summary of the contractors work, date and signature of GH's project manager inspection of work, and date and signature of the fleet manager or designee accepting the work. However, we identified invoice payments of \$930,508 or 398 vehicles for which GH did not provide the Contractor Invoice Submission form. The \$930,508 represents at least part of 8 of the 10 contract awarded under the CA.

## Conclusion

Although we were able to verify that the appropriate technology was installed on the limited number of vehicles available for inspections, we were unable to determine whether the vehicles reported as completed actually existed and were retrofitted. As a result, we are unable to express an opinion as to whether GH met the objective of the CA.

The fact that GH was unable to provide evidence that it consistently verified the work completion raised a question about the reliability of the information reported. EPA Region 7 staff also had concerns about the reliability of the data submitted by GH in its October 12, 2011, final progress report based on their cursory review of the data. As a result, Region 7 has advised GH to revise and resubmit the report to include a complete listing of the VINs for the vehicles retrofitted.

## Recommendation

We recommend that the Region 7 regional administrator:

4. Verify that vehicles GH reported as retrofitted under the CA were complete and retrofitted in accordance with the workplan requirements.

## Recipient Comments

GH disagreed with our recommendation. GH stated that it prepared the final report and final fleet list in accordance with instructions. As part of the draft response, GH provided the verification details for the equipment on the fleet lists submitted with the final report. GH said the fleet list verification details demonstrated that there is no reasonable basis for doubting whether GH met the objectives of the CA.

GH also stated that there is no requirement to make all retrofitted units available for inspection during site visits or for the recipient to verify work completion. GH explained that the vehicles were not all available for inspection because of their service schedules, which GH had no control over. GH acknowledged that the tugboat we selected for testing was not initially made available for inspection due to misunderstanding about the site visit arrangement. The tugboat was later made available for inspection at the time of our final exit conference on July 11, 2013. Furthermore, GH acknowledged that the contractor invoice payment packages were developed midway through the project and was not used in the earlier payments.

GH's complete written response is included in appendix A.

## OIG Response

Our position on this issue remains unchanged. Although GH provided the vehicle identification details for the fleet lists as part of its draft response, this information was not available for sample selection during our fieldwork. Since our fieldwork phase has already passed, the new information provided by GH will not affect our position on the issue.

We disagree with GH's statement that there is no requirement to make all retrofitted units available for inspection or for the recipient itself to verify work completion. Recovery Act Section 1515, as incorporated into administrative condition 17 of the CA, requires the recipient to allow any appropriate representative of the OIG to examine any records of the recipient, any of its procurement contractors and subcontractors that pertain to, and involve transactions relating to the grant. Based on our interpretation of this requirement, we believe GH is required to make the retrofitted units available for inspection.

Programmatic condition 11 of the CA also states that the work under the CA must be completed in accordance with the approved workplan. Item 5 of the workplan states that GH will assure retrofits are ordered, installed and maintained in a timely manner. Without some form of verification, GH would not be able to provide this assurance. Furthermore, the final report is GH's representation to the EPA that it had completed all of the tasks under the agreement. It is GH's responsibility to ensure that its final representation is accurate, complete, and properly supported.

In connection with the consistency in work completion verification, GH acknowledged that invoice payment packages verification was not done for the earlier payments. No additional comment is needed from the OIG.

Details of our responses to GH's comments are in appendix B.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	7	Disallow \$1,615,343 in questioned costs and recover \$1,423,028 of that amount under the CA. If GH provides documentation that meets appropriate federal requirements or demonstrates the fairness and reasonableness of the contract prices, the amount to be recovered may be adjusted accordingly.	U	Regional Administrator, Region 7		\$1,615	
2	18	Verify, prior to any future EPA award, that the recipient has adequate controls to ensure that: a) Procurement practices comply with federal regulations and the company's own procedures. b) Contract personnel have adequate federal procurement knowledge. c) Contract and bid information are accurate and complete. d) Unallowable costs are properly segregated and financial management data are properly supported. e) Labor charges comply with federal requirements. f) Cash draws meet immediate cash needs and documentation requirements.	U	Regional Administrator, Region 7			
3	21	Verify that the recipient reported the number of jobs created and retained in accordance with the requirements of Recovery Act Section 1512 and the guidance issued by OMB.	U	Regional Administrator, Region 7			
4	25	Verify that vehicles GH reported as retrofitted under the CA were complete and retrofitted in accordance with the workplan requirements.	U	Regional Administrator, Region 7			

O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is unresolved with resolution efforts in progress

## ***GH's Comments on the Draft Report***

Due to the length of the recipient's comments and the need to redact the sensitive information in the comments, appendix A is presented in a separate file. See the following link:

[www.epa.gov/oig/reports/2013/20130830-13-R-0367\\_appendix A.pdf](http://www.epa.gov/oig/reports/2013/20130830-13-R-0367_appendix_A.pdf)

## ***OIG Evaluation of GH Comments***

Due to the length of the recipient's comments and the need to redact the sensitive information in the comments, appendix B is presented in a separate file. See the following link:

[www.epa.gov/oig/reports/2013/20130830-13-R-0367\\_appendix B.pdf](http://www.epa.gov/oig/reports/2013/20130830-13-R-0367_appendix_B.pdf)

## ***Distribution***

Regional Administrator, Region 7  
Deputy Regional Administrator, Region 7  
Director, Grants and Interagency Agreements Management Division,  
Office of Administration and Resources Management  
Agency Follow-Up Official (the CFO)  
Agency Follow-Up Coordinator  
Audit Follow-Up Coordinator, Region 7  
Grants Management Officer, Region 7  
Public Affairs Officer, Region 7  
Director, Air and Waste Management Division, Region 7  
Chief, Air Planning Branch, Air and Waste Management, Region 7  
President and Chief Executive Officer, Grace Hill Settlement House