



# Office of Inspector General

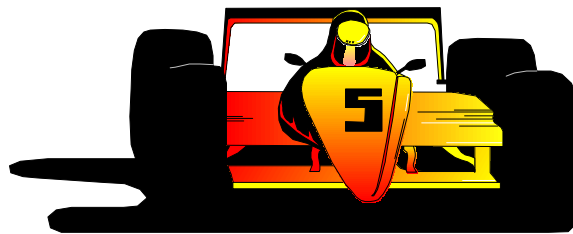
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## Special Report

# Assistance Agreements

## EPA Cooperative Agreements Awarded to the Coordinating Committee for Automotive Repair

Report No. 10960-2002-M-000017  
May 29, 2002



**Inspector General Resource Centers  
Conducting the Review:**

Central Audit and Evaluation Resource Center  
Kansas City  
Central Investigations Resource Center  
Chicago

**EPA Program Offices Involved:**

Office of Enforcement and Compliance Assurance  
  
Office of Grants and Debarment,  
Grants Administration Division

**Report Contributors:**

Stephanie Oglesby  
Clay Brown

May 29, 2002

**MEMORANDUM**

SUBJECT: EPA Cooperative Agreements Awarded to the Coordinating Committee for  
Automotive Repair  
Report No. 10960-2002-M-000017

FROM: Bennie Salem  
Divisional Inspector General

TO: Martha Monell, Director  
Grants Administration Division

We performed a limited financial and compliance review of the Coordinating Committee for Automotive Repair's (CCAR) Cooperative Agreements CX82437601 (1995-2000), CX82573201 (1997-1999), and CX82836601 (2000-2001). The purpose of our work was to determine whether CCAR effectively managed its Environmental Protection Agency (EPA) cooperative agreements. Specifically, we determined whether costs claimed for the cooperative agreements were allowable, reasonable, and allocable in accordance with federal law, regulations, and terms of the cooperative agreements.

This review was completed as part of a nationwide Office of Inspector General initiative performed jointly between the Offices of Audit and Investigations. This report addresses financial and compliance observations. The Office of Investigations is addressing other matters related to the cooperative agreements separately.

Our work was not an examination in accordance with *Government Auditing Standards*, the purpose of which is to express an opinion. Therefore, we do not express an opinion. Our work followed the Grants Proactive Vulnerability Assessment guide. Our review involved a judgmental sample of costs claimed for payroll, travel, rent, supplies, and administration expenses. We reviewed these costs to determine whether CCAR accounted for the costs in accordance with Federal rules, regulations, and terms of the cooperative agreements. Specifically, we followed the criteria in Office of Management and Budget Circular A-122 and 40 Code of Federal Regulations Part 30 when conducting our compliance review. Had we performed our work in accordance with *Government Auditing Standards*, other matters might have come to our attention and would have been reported to you.

### **Action Required**

In accordance with EPA Order 2750, you, as the action official, are required to provide our office with a proposed draft management decision specifying the Agency's position on our recommendation on costs questioned and other recommendations in this report. The draft management decision is due within 120 calendar days of the date of this transmittal memorandum.

Our report includes an assessment of the recipient's draft report comments. We also included its written comments as Appendix I.

If you have any questions, please feel free to call Stephanie Oglesby at (913) 551-7008 or Michael Rickey at (312) 886-3037.

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## **Summary of Results**

We questioned all costs claimed under the Cooperative Agreements CX82437601 (1995-2000), CX82573201 (1997-1999), and CX82836601 (2000-2001), because the Coordinating Committee for Automotive Repair (CCAR) did not account for funds in accordance with Federal rules, regulations, and terms of the cooperative agreements. CCAR's claims under the cooperative agreements totaled \$2,026,837 as of June 30, 2001. The questioned costs consisted of unsupported and ineligible payroll costs and unsupported travel, equipment, printing/postage, rent, telephone, outreach, CCAR administration, web/computer, and supply costs. The questioned costs and specific issues identified are explained in detail in Exhibits A through D.

## **Recommendations**

We recommend the Director, Grants Administration Division:

2. Require CCAR to modify its financial management system to meet the requirements of 40 Code of Federal Regulations (CFR) 30.21. At a minimum, CCAR's system must:
  - Ensure that financial results are current, accurate, and complete.
  - Include written procedures to determine reasonableness, allocability, and allowability of costs in accordance with Office of Management and Budget (OMB) Circular A-122.
  - Include accounting records that are supported by adequate source documentation.
2. Require CCAR to develop a time distribution system that meets the requirements of OMB Circular A-122.
3. Not provide any new funds until the Agency confirms that CCAR has financial management capabilities to manage funds in accordance with 40 CFR 30.21 and OMB Circular A-122.
4. Require CCAR to reconstruct the accounting records necessary to support the expenditure of funds in accordance with OMB Circular A-122. At a minimum, CCAR will need to review time sheets, logs or other records to identify the time actually spent on EPA authorized activities.
5. Require CCAR to submit indirect cost proposals for the fiscal periods 1995 to present in accordance with OMB Circular A-122.
6. Recover all ineligible costs that do not meet the requirements of OMB Circular A-122.
7. Recover all funds that cannot be supported by CCAR in accordance with OMB Circular A-122.

## **Recipient Response**

CCAR generally concurred with recommendations 1, 2, and 5. CCAR has begun to develop a financial management system that addresses the specific matters noted by the OIG. CCAR has instituted a new timekeeping (time distribution) system effective March 2, 2002, which identifies work activities by specific task in quarter-hour increments. Finally, CCAR is currently working with its accounting firm to prepare and submit an indirect cost proposal.

CCAR generally disagreed with recommendations 4 and 6. The organization does not have the resources to reconstruct past accounting records. Instead, CCAR wants to move forward with assistance from EPA to assure that present and future systems of accounting records meet the OMB Circular A-122 requirements.

CCAR believes that the draft report overstates the amount of ineligible and unsubstantiated costs. First, CCAR believes the salary paid to the former Executive Director was reasonable. Second, CCAR believes that since EPA provided 80 to 90 percent of its funding, a corresponding percentage of expenses were directly related to EPA agreements. Since most expenses were EPA related, CCAR believes the amount of salaries charged to the agreements reasonably reflected the actual time spent by the employees. CCAR also believes the vast majority of travel costs related to federal activities and were allowable.

## **Office of Inspector General (OIG) Evaluation**

Even though CCAR is working toward improved financial management and time management systems, and the development of an indirect cost rate proposal, its response did not provide sufficient information to satisfy our recommendations. While CCAR said it is making the recommended changes, EPA should satisfy itself that CCAR has an appropriate financial management system in place before providing additional funds.

As previously mentioned, CCAR believes the Executive Director's actual salary compensation was lower than the agreed-upon base. We do not concur. The agreed-upon base included compensation to be paid with non-federal funds. As noted in the report, the Board of Directors reduced the required work hours to liquidate non-EPA funds owed to the Director for a period when funds were not available. The shifting of a non-EPA obligation to the cooperative agreements is prohibited by OMB Circular A-122 and these costs should be recovered.

Although CCAR stated that it has accomplished the technical requirements of the cooperative agreements, it could not demonstrate that all costs claimed against these agreements related directly to federal activities. Thus, CCAR should provide adequate documentation to support costs claimed to date. If this cannot be done, we believe EPA must recover all costs that cannot be supported as directly related to federal activities.



## **Background**

CCAR, also referred to as CCAR-Greenlink, is one of 10 compliance assistance centers funded by EPA's Office of Enforcement and Compliance Assurance. CCAR provides compliance assistance information to the automotive industry via the Internet. EPA's main goal was for the compliance assistance centers to become self-sufficient within a few years of operation. CCAR first received funds from EPA in October 1995 and, as of September 2001, had not met the EPA goal of becoming financially privatized.

To assist the reader in obtaining an understanding of the report, key terms are defined below:

***Claimed Costs:*** Program outlays identified by the grantee on either the Financial Status Report (Standard Form 269) or Federal Cash Transaction Report (Standard Form 272).

***Questioned Costs:*** Adjustments made by the OIG because the claimed costs are unsupported (not supported by adequate documentation) or ineligible (incurred and claimed contrary to a provision of a law, regulation, or term in the cooperative agreement governing the expenditure of funds).



## **Exhibit A**

### **CCAR's Noncompliance With the Terms of the Cooperative Agreements**

CCAR did not follow the terms identified in the cooperative agreements and prepare an indirect cost rate proposal. The terms identified in CCAR's cooperative agreements follow OMB Circular A-122, Attachment A, paragraph E.2, and require that recipients prepare an indirect cost rate proposal within 90 days from the cooperative agreements' award dates and retain it in their files, subject to audit. The indirect cost proposal should be updated each fiscal year. Also, the indirect cost rate proposal should be based on guidance in the EPA Booklet "Preparing Indirect Cost Rate Proposals for Grants and Contracts" (August 1990). Typical indirect costs for non-profit organizations include depreciation or use allowances on buildings and equipment; costs of operating and maintaining facilities; and general administration and expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

Our review identified that CCAR had never developed an indirect cost rate proposal. CCAR had numerous budget amendments that increased funds awarded in the cooperative agreements. The budget narratives supporting the amendments identified indirect costs for CCAR. The terms of the cooperative agreements required CCAR to develop an indirect cost rate proposal supporting the indirect costs within 90 days from the issuance of the award. However, CCAR did not comply with the terms of the cooperative agreements and develop an indirect cost rate.

Even though CCAR identified indirect costs in budget narratives, CCAR treated all costs as direct in its accounting system. Various elements of costs were charged based on the availability of funds budgeted in the cooperative agreements. CCAR rarely charged costs so that the federal and non-federal activities bore a share of common costs. In addition, no overall allocation approach or plan existed that assured equitable and consistent treatment of costs, especially common costs incurred to provide necessary support to all federal and non-federal activities.

We found that CCAR's non-federal revenue increased from approximately 8 percent in fiscal 1996 to 48 percent in fiscal 2001. Even though CCAR increased non-federal revenue each year, costs were not properly allocated to federal and non-federal activities.

CCAR should develop an indirect cost rate proposal that would provide a cost allocation structure to be used for all costs that benefit more than one final cost objective. In addition, the cost allocation structure would provide CCAR with an improved ability to monitor the various components of allocated costs and would minimize the risk of claiming reimbursement for unsupported costs.



**Exhibit B  
Summary Results for Cooperative Agreement CX82437601**

Categories	Costs Claimed	Costs Questioned as:			Notes
		Ineligible	Unsupported	Total	
Personnel/Fringe Benefits	\$1,062,267	\$108,510	\$953,757	\$1,062,267	1
Travel	85,126		85,126	85,126	2
Equipment	42,393		42,393	42,393	3
Printing/Postage	43,167		43,167	43,167	3
Web/Computer	60,119		60,119	60,119	3
Office Rent	85,818		85,818	85,818	3
Telephone	60,768		60,768	60,768	3
Outreach	86,483		86,483	86,483	3
Research	65,966		65,966	65,966	3
Education Consultant	26,657		26,657	26,657	3
Supplies	27,060		27,060	27,060	3
CCAR Administration	114,391		114,391	114,391	3
Excess Claimed Costs	4,785		4,785	4,785	4
<b>Total</b>	<b>\$1,765,000</b>	<b>\$108,510</b>	<b>\$1,656,490</b>	<b>\$1,765,000</b>	
<b>Total Questioned</b>				<b>\$1,765,000</b>	

**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

**Notes**

1. We questioned \$1,062,267 of personnel costs for the following reasons:

	Description	Ineligible	Unsupported	Total
1.A	Unauthorized Salary	\$108,510		\$108,510
1.B	System Deficiency		\$953,757	\$953,757
	Total			\$1,062,267

1.H We questioned \$108,510 of unauthorized salaries for the following reasons:

	Description	Amount
1.A-1	Work Hour Adjustment	\$70,643
1.A-2	Excess Over Ceiling	\$35,045
1.A-3	Unauthorized Holiday Pay	\$2,822
	Total	\$108,510

1.A-1 We questioned \$70,643 because the Board of Directors reduced the number of hours for the Executive Director without reducing the salary claimed under the cooperative agreement. Effective July 1, 1999, the Board of Directors increased the Executive Director's annual salary to \$136,000 and reduced the number of required work hours to 1,560. This reduction resulted in a 30-hour work week. The Board reduced the hours to liquidate non-EPA funds owed to the Director for a period when funds were not available.

Shifting a non-EPA obligation to a cooperative agreement is prohibited by OMB Circular A-122, Attachment A, paragraph 4.b. In addition, the reduction in hours increased the equivalent hourly rate from about \$65 to \$87. It is not reasonable to pay \$87 per hour for the same work previously paid at \$65 per hour, without an authorized increase in salary.

According to the EPA project officer, the Executive Director's salary was limited to 75 percent of hours worked. Therefore, the maximum number of hours that EPA agreed to reimburse CCAR would be 22.5 hours (30 hours X 75 percent), which is 56 percent of a standard 40-hour work week. It is necessary to compute the adjustment by a factor of 56 percent to ensure that the allowable amount is based on 75 percent of the total hours worked at an annualized hourly rate of about \$65. Adjustment was computed as follows:

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<u>Description</u>	<u>Amount</u>
Approved Salary - July 1999 through Oct. 2000	\$183,147
Adjustment Factor	<u>56%</u>
Maximum Allowable	<u>\$102,562</u>
Charged to EPA accounts	\$173,205
Maximum Allowable	(\$102,562 )
Questioned Costs	<u>\$70,643</u>

- 1.A-2 As discussed in the previous note, EPA limited the reimbursement of the Executive Director's salary to 75 percent of the hours worked. For 6 months, the limit was 50 percent. From 1995 through 2001 (except for the cost questioned in note 1.A-1 above) CCAR claimed \$35,045 for the Executive Director in excess of the EPA imposed ceiling.
- 1.A-3 We questioned \$2,822 of unauthorized holiday pay. CCAR employees claimed holiday pay for days which were not authorized in their written personnel policy. For example, staff charged the entire week of Christmas as holiday time, when only Christmas day was authorized holiday time. OMB Circular A-122, Attachment B, subparagraph 7.b(1) states that allowable compensation must conform to the established policy of the organization.
- 1.B We questioned \$953,757 as unsupported costs because CCAR did not maintain adequate time records as required by OMB Circular A-122, Attachment B, subparagraph 7.m(2). CCAR employees maintained weekly records of work activity, but did not usually identify the actual hours spent on the activities. Additionally, these activity reports were not used to distribute labor costs claimed to the cooperative agreement. The claims were based on estimates. For example, some employees identified non-federal activities but all salary costs were charged to the cooperative agreement. We also identified specific time periods when federal and non-federal activities paid for labor costs, but the employee taxes were paid solely with EPA funds in the cooperative agreement.
2. We questioned \$85,126 of travel costs because CCAR's accounting system was deficient. CCAR did not have adequate controls to prevent the submission and reimbursement of ineligible expenses for travel. According to 40 CFR Part 30.21, a grantee's financial management system shall provide effective controls over and accountability for all funds

## **EPA Cooperative Agreements Awarded to the Committee for Automotive Repair**

received. Our limited review identified claims to EPA for alcoholic beverages and trips for non-federal activities. In addition, available documentation was not sufficient to determine whether the costs were reasonable, allowable and allocable in accordance with federal regulations and terms of the cooperative agreement. Often, the only support for a charge was a credit card receipt that did not identify the item purchased.

3. We questioned the remaining costs of \$612,822 because CCAR did not: (1) have written accounting procedures regarding the allocation of joint or common costs, and (2) submit indirect cost proposals that would distinguish indirect costs from direct costs.

Title 40 CFR 30.21(b)(6) requires the grantee's financial management system to include written procedures for determining allocability of costs. OMB Circular A-122, Attachment A, subparagraph A.4 discusses the principles of allocability that would need to be addressed in the written procedures. In addition, OMB Circular A-122, Attachment A, paragraph C defines indirect costs; paragraph D discusses the three allocation methods authorized for indirect costs; and paragraph E discusses the negotiation and approval of indirect cost rates.

We found no evidence that CCAR had prepared or negotiated an indirect cost rate as required by OMB Circular A-122. Costs benefitting more than one activity were generally charged directly to the EPA cooperative agreement.

4. We questioned \$4,785, which was the difference between the \$1,765,000 claimed on the Financial Status Report and the \$1,760,215 supported in the accounting records. We were not able to reconcile the total program outlays claimed with CCAR's accounting system.



**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

**Exhibit C  
Summary Results for Cooperative Agreement CX82573201**

Categories	Costs Claimed	Costs Questioned as:			Notes
		Ineligible	Unsupported	Total	
Personnel/Fringe Benefits	\$66,455	\$22,441	\$44,014	\$66,455	1
Travel	3,623		3,623	3,623	2
Equipment	1,077		1,077	1,077	3
Printing/Postage	1,144		1,144	1,144	3
Web/Computer	760		760	760	3
Office Rent	3,223		3,223	3,223	3
Telephone	2,243		2,243	2,243	3
Outreach	4,023		4,023	4,023	3
Supplies	1,155		1,155	1,155	3
CCAR Administration	5,368		5,368	5,368	3
Excess Claimed Costs	929		929	929	4
<b>Total</b>	<b>\$90,000</b>	<b>\$22,441</b>	<b>\$67,559</b>	<b>\$90,000</b>	
<b>Total Questioned</b>				<b>\$90,000</b>	

**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

**Notes**

1. We questioned \$66,455 of personnel costs for the following reasons:

	Description	Ineligible	Unsupporte d	Total
1.A	Unauthorized Salary	\$22,441		\$22,441
1.B	System Deficiency		\$44,014	\$44,014
	Total			\$66,455

- 1.A We questioned \$22,441, which was the difference between the amount authorized by EPA and the amount claimed by CCAR. EPA agreed to reimburse the Executive Director 10 percent of his salary, which was \$13,596. CCAR claimed \$36,037 for the Executive Director’s salary and this resulted in ineligible costs reimbursed by EPA.
- 1.B We questioned \$44,014 as unsupported costs because CCAR did not maintain adequate time records. Details are discussed in Exhibit B, Note 1.B.
2. We questioned \$3,623 of travel costs as unsupported because CCAR’s accounting system was deficient. CCAR did not have adequate controls to prevent the submission and reimbursement of ineligible expenses for travel. Details are discussed in Exhibit B, Note 2.
3. We questioned the remaining costs of \$18,993 because CCAR did not: (1) have written accounting procedures regarding the allocation of joint or common costs, and (2) submit indirect cost proposals that would distinguish indirect costs from direct costs. Details are discussed in Exhibit B, Note 3.
4. We questioned \$929, which was the difference between the \$90,000 claimed on the Financial Status Report and the \$89,071 supported in the accounting records. We were not able to reconcile the total program outlays claimed with CCAR’s accounting system.

**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

**Exhibit D  
Summary Results for Cooperative Agreement CX82836601**

Categories	Costs Claimed	Costs Questioned as:			Notes
		Ineligible	Unsupported	Total	
Personnel/Fringe Benefits	\$105,423	\$18,558	\$86,865	\$105,423	1
Travel	5,835		5,835	5,835	2
Printing/Postage	2,339		2,339	2,339	3
Web/Computer	8,632		8,632	8,632	3
Office Rent	19,549		19,549	19,549	3
Telephone	6,675		6,675	6,675	3
Outreach	5,231		5,231	5,231	3
Supplies	2,653		2,653	2,653	3
CCAR Administration	12,634		12,634	12,634	3
Excess Claimed Costs	2,866		2,866	2,866	4
<b>Total</b>	<b>\$171,837</b>	<b>\$18,558</b>	<b>\$153,279</b>	<b>\$171,837</b>	
<b>Total Questioned</b>				<b>\$171,837</b>	

**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

**Notes**

1. We questioned \$105,423 of personnel costs for the following reasons:

	Description	Ineligible	Unsupporte d	Total
1.A	Unauthorized Salary	\$18,558		\$18,558
1.B	System Deficiency		\$86,865	\$86,865
	Total			\$105,423

1.C We questioned \$18,558 of ineligible costs for the following reasons:

	Description	Amount
1.A-1	Work Hour Adjustment	\$10,372
1.A-2	Excess Over Ceiling	\$7,232
1.A-3	Unauthorized Holiday Pay	\$954
	Total	\$18,558

1.A-1 We questioned \$10,372 because the Board of Directors reduced the number of hours for the Executive Director without reducing the salary claimed under the cooperative agreement. Effective July 1, 2000, the Board of Directors increased the Executive Director's salary to \$141,440 and reduced the number of required work hours to 1,560. See Exhibit B, Note 1.A-1 for more details. The adjustment was computed as follows:

**EPA Cooperative Agreements Awarded  
to the Committee for Automotive Repair**

<u>Description</u>	<u>Amount</u>
Approved Salary - Nov. 2000 through Dec. 2000	\$23,573
Adjustment Factor	<u>56%</u>
Maximum Allowable	<u>\$13,201</u>
Charged to EPA accounts	\$23,573
Maximum Allowable	(\$13,201)
Questioned Costs	<u>\$10,372</u>

- 1.A-2 We questioned \$7,232 because CCAR claimed costs for the Executive Director's salary in excess of the EPA imposed ceiling. Details are discussed in Exhibit B, Note 1.A-2.
- 1.A-3 We questioned \$954 of unauthorized holiday pay. Details are discussed in Exhibit B, Note 1.A-3.
- 1.B We questioned \$86,865 as unsupported costs because CCAR did not maintain adequate time records. Details are discussed in Exhibit B, Note 1.B.
2. We questioned \$5,835 of travel costs as unsupported because CCAR's accounting system was deficient. CCAR did not have adequate controls to prevent the submission and reimbursement of ineligible expenses for travel. Details are discussed in Exhibit B, Note 2.
3. We questioned the remaining costs of \$57,713 because CCAR did not: (1) have written accounting procedures regarding the allocation of joint or common costs, and (2) submit an indirect cost proposal that would distinguish indirect costs from direct costs. Details are discussed in Exhibit B, Note 1.A-3.
4. We questioned \$2,866, which was the difference between the \$171,837 claimed on the Federal Cash Transaction Report and the \$168,971 supported in the accounting records. We were not able to reconcile total program outlays claimed with CCAR's accounting system.



## Recipient Comments

March 27, 2002

To: Ms. Valorie Swan-Townsend, U.S. EPA, Grants Administration Division

Cc: Mr. Michael Stahl, U.S. EPA, OECA  
Mr. Michael Alushin, U.S. EPA, OECA  
Mr. Everett Bishop, U.S. EPA, OECA

CCAR Executive Committee

I am writing in response to the draft report, *EPA Cooperative Agreements Awarded to the Coordinating Committee For Automotive Repair*, that was received in our office with a cover memorandum from Bennie Salem, Divisional Inspector General, dated February 22, 2002.

My response is being sent to you in coordination with an accompanying letter from Mr. Lirel Holt, who serves as chairman and chief executive officer of CCAR, and a joint response from Mr. Holt and I that addresses specific accounting issues in the draft report.

### **Background**

I joined the CCAR organization in August 2000, when I was hired as marketing/project manager to work on the "Automotive Career Education Day" project. I came from a background of working for 17 years with not-for-profit trade and professional organizations in the automotive and diesel fuel injection industries. My education and professional experience have been in the areas of public relations and management; I have no accounting background.

### **Transition**

Upon the resignation of Mr. Sherman Titens as CCAR president on February 1, 2001, my duties were shifted to include more of the day-to-day responsibility for activities of the "CCAR-GreenLink" Compliance Assistance Center. Since June 2001 when the OIG review began, my responsibilities have been almost directed to CCAR-GreenLink activities.

### **Further Transition**

Effective July 23, 2001, following the resignation of Mrs. Robyn Kendrick, I served as acting director of CCAR, and in November 2001 my title was changed to acting president. Since that time, I have attempted to clarify and coordinate the financial management activities of CCAR around three guiding tenets:

- 1) what has been asked of CCAR by OECA;
- 2) what areas of concern have been communicated to me by those involved in the OIG review; and
- 3) what seems a reasonable and prudent system of management based on my business experience.

### **Response to Recommendations**

Mr. Holt has asked me to respond specifically to the recommendations listed on pages 2-3 of the draft report.

1. The first recommendation is to suspend CCAR's current cooperative agreement "all corrective action" has been taken to support future federal claims. What CCAR needs to know is: What constitutes "all corrective action" and who will make this determination?
2. We want to comply with this recommendation regarding CCAR's financial management system, and I have reviewed the language of 40 CFR 30.21. We have begun the process of developing a financial management system that addresses the specific matters noted by the OIG. There are certain matters for which we will need assistance or classification from OECA. We work with OECA (or designated parties) to address these matters.
3. CCAR has instituted a new timekeeping (time distribution) system effective March 2, 2002, which identifies work activities by specific task in quarter-hour increments. I am attaching a sample report based on this new structure. We will solicit your guidance to determine if this new system meets the requirements of OMB Circular A-122.
4. CCAR has neither the financial nor human resources required to reconstruct the past accounting records in regard to expenditure of grant funds.

We can move forward with assistance from EPA to assure that our present and future system of accounting records meet the OMB Circular A-122 requirements.

5. We are working presently with our accounting firm to prepare and submit an indirect cost proposal shortly.



6. Upon review of the draft report with our accounting firm, it is my opinion that the draft report almost entirely overstates the amount of ineligible and unsubstantiated costs.

A separate response prepared after consultation with our accounting firm addresses the Exhibits attached to the draft report.

### **Personal Observations**

A comment made to me by personnel involved in the OIG review has stuck with me through the last several months since I became CCAR's acting president. The gist of the comment was this: "We know we can't change the past, but we can impact the future."

I have no knowledge of what CCAR did or didn't do in efforts to follow the terms identified in the cooperative agreements of previous years and to prepare an indirect cost proposal for those periods. I have no knowledge of what assistance or guidance was provided in previous years to CCAR by OECA or the Grants Administration Division related to indirect costs.

What I do know is that a series of cooperative agreements were approved for CCAR, and my assumption is that EPA reviewed them at every step along the way. I also know that annual audits of CCAR have been conducted in accordance with Government Auditing Standards, as well as OMB Circular A-133, using the same accounting firm each time. Former staff members repeatedly told me that CCAR was "clean" in each of these audits, and I assume that copies of these documents have regularly been provided to OECA.

### **Moving Forward**

With ongoing guidance and assistance from OECA and the Grants Administration Division, CCAR can continue to serve the automotive industry through the "CCAR-GreenLink" Compliance Assistance Center, and can do so in compliance with all applicable guidelines for our financial management and reporting.

If the OIG draft report requires, however, that CCAR "change the past" by reconstructing accounting records and again providing documentation and justification for all previous expenditure of grant funds, there is no future for CCAR. *The organization simply cannot sustain itself financially to conduct such a massive accounting procedure.*

The total automotive industry looks to CCAR-GreenLink for answers and solutions in environmental compliance and pollution prevention. Each week brings new opportunities to reach our audience by way of our website, telephone assistance, and through our marketing of private-label services and S/P2 online training.

My optimism that CCAR can flourish is high. Its performance of its compliance assistance duties has never been greater. We have the staff in place, as well as the products that can permit us to be far less dependent on EPA grant funding in future years.

The content of the final OIG report will determine whether my optimism can become a shared reality for CCAR and EPA.

Sincerely,

ROBERT G. STEWART  
Acting President

rgs:

Attachment

**March 27, 2001**

To: Ms. Valorie Swan-Townsend

CC: Mr. Michael Stahl, Mr. Michael Alushin, Mr. Everett Bishop  
CCAR Executive Committee

From: Lirel Holt and Robert G. Stewart, CCAR

The following response has been developed after consultation with our accounting firm, BKD LLP, and a review of the OIG draft report, audit records and notes accumulated during the period in question.

**Exhibit A: CCAR's Non-Compliance with the Terms of the Cooperative Agreements**

While Exhibit A refers to non-compliance with respect to terms of the Cooperative Agreement, it seems to refer solely to indirect costs and the need for CCAR to develop an indirect cost rate proposal.

It should be noted that from CCAR's inception in 1994 and through 1998 (with the exception of 1996) approximately 80 to 90% of its funding was provided by the EPA's Office of Enforcement and Compliance Assurance (OECA).

Based on level of funding being received from the EPA over this time period and the corresponding level of effort and operations directed towards the purpose of carrying out the terms outlined in Cooperative Agreement (EPA grants), our assumption is that CCAR management felt it was not necessary to develop an indirect cost rate proposal. This is due to the fact that during this time period CCAR's entire operational efforts and related expenditures were almost entirely geared towards carrying out the directives outlined in the EPA grants.

During this time period, 80 to 90% of expenses incurred were directly related to the EPA grants. This is consistent with the budgets that were submitted to and approved by the OECA.

Accordingly, management in place at the time felt it was somewhat unreasonable to require an indirect cost rate be in place, when in fact, indirect costs only comprised a minute portion of our total expenses incurred during this time period.

With respect the fiscal years ended 1999 through 2001, we do agree that CCAR's non-federal revenue and expenses increased during this time period, per recommendations by OECA that CCAR become self-funding. As a result of this mandate to become self-sufficient and emerging new revenue streams, we are in the process of developing an indirect cost rate proposal and/or negotiating an indirect cost rate, which upon completion, and approval by the EPA, will be implemented immediately.

When evaluating and reviewing our revenue and expense distribution (both direct program expenses and indirect management and general expenses), it is still our position that the amounts claimed under the EPA grants would be comparable had an indirect cost rate been in place. We have compiled the information on

the attached spreadsheet from our audited financial statements to highlight this point. (The attached Exhibit #1 summarizes not only fiscal years ended 1999 to 2001 but also fiscal years 1996 to 1998.)

### **Exhibit B: Summary Results for Cooperative Agreement CX82437601**

In Exhibit B, the OIG is questioning the entire \$1,765,000 claimed under the cooperative agreement. Of this amount, \$108,510 is referred to as ineligible and \$1,656,490 is referred to as unsupported. As a practical matter, how can this be? The CCAR-*GreenLink* website was built and operated for all these years, and A-133 audits were completed as required. The enormous percentage of funds being challenged calls the method of analysis into question.

The purported lack of and deficiencies in documentation described in the draft report are inconsistent with the evidence provided to and inspected by our auditors during the annual audits. It is possible that some documentation available at the time of the earlier audits is no longer in existence due the passage of time and normal destruction of records, although we have no knowledge of any such destruction of records. It is also probable that documentation on hand was not fully provided to or understood by the OIG or CCAR personnel during the period of the work of the OIG. CCAR personnel from the periods involved are no longer employed by CCAR and the knowledge of current CCAR personnel regarding such matters is limited.

Notes 1.A-1, A-2. Ineligible Executive Director's salary amounts consisting of \$70,643 related to work hour adjustment and \$35,045 related to excess over ceiling.

It should first be noted that a good portion of the history and related circumstances involving the former Executive Director's salary were discussed and negotiated by former Board members with the former Executive Director. Furthermore, as requested by the OIG, we have not consulted with the former Executive Director with respect to this matter. Taking that into consideration, the following is, to the best of our knowledge, our position on the matter.

1.A-1 and A-2. The draft report states it is not reasonable to pay \$87 per hour for work previously performed at a rate of \$65 per hour. As noted in correspondence available between the former Executive Director and the Board, it appears that the actual compensation (1996-\$99,600; 1997-\$110,051; 1998-\$132,930) was lower than the agreed-upon base compensation of \$132,000 for 1996. The agreed-upon compensation of \$132,000 was determined to be reasonable based on the Executive Director's education and experience. Therefore, our position is that the individuals involved in the decision deemed the increase from \$65 to \$87 per hour reasonable.

The EPA was provided records for compensation and accounting at all junctures. No recommendations were received to reduce compensation, nor were comments received that compensation was inappropriate.

1.A-3. The report questions \$2,822 of unauthorized holiday pay. We are not currently challenging this matter.

1.B. We are not in agreement with the OIG position that \$1,656,490 of expenses is unsupported. Since most of the expenses were for salaries, compensation and website development, such records do exist to support the expenses, and contacts by the EPA would confirm the existence of the services and employment of staff.

1.B-1. OIG questioned \$953,757 as unsupported costs because CCAR did not maintain adequate time records. It has always been our policy that CCAR employees maintain weekly records of work activity. While the detail of hours spent on each activity may not have always been clear, we do feel that the amount of such salaries charged to the grant reasonably reflected the actual time spent by the employees. Furthermore, while you may argue that claims were based on estimates, we feel we can adequately support that such estimates reasonably reflect the actual time and effort. For example, as previously noted for our fiscal years ended February 28, 1998 and prior, the vast majority of our activities and related expenses were directly related to the funding provided by the EPA grants. The EPA funding and related program activities (with the exception of 1996) comprised over 80% of our actual program activities in some years and over 90% in others. (See attached Exhibit #1 that illustrates this).

1.B-2. OIG questioned \$85,126 of travel costs because CCAR's accounting system was deficient. While there might be some unallowable travel costs, our position is that the vast majority was allowable and did relate to federal activities. As indicated in the OIG report, only a limited review was performed with respect to such claims and expenditures. Our position is that CCAR maintained adequate documentation for the vast majority of such expenditures.

1.B-3. OIG questioned \$612,822 of the remaining costs because CCAR did not have written accounting procedures regarding allocation of joint or common costs and did not submit an indirect cost rate proposal. We feel such costs are allowable and can be supported. To our knowledge, the underlying documentation (invoices, receipts, cancelled checks, etc.) still exists for such costs. Additionally, the majority of such costs were direct costs related to the EPA grants.

1.B-4. OIG questioned \$4,785, which was the difference between the \$1,765,000 claimed on the Financial Status Report and the \$1,760,215 supported in the accounting records. At this time, we have not had the resources to investigate this in detail. It would be helpful if you could please provide us with a recap or detail of how the \$1,760,215 was determined.

### **Exhibit C: Summary Results for Cooperative Agreement CX82573201**

In Exhibit C, the OIG is questioning the entire \$90,000 claimed under the cooperative agreement. Of this amount, \$22,441 is referred to as ineligible and \$67,559 is referred to as unsupported. (See general response at Exhibit B)

1.A. OIG questioned \$22,441 of the Executive Director's salary, which OIG stated was the difference between the amount authorized by the EPA and the amount claimed by CCAR. We feel the amount claimed by CCAR of \$36,037 is reasonable based on the Executive Director's time, effort and previously approved compensation prior to and related to this grant. We feel the agreed upon reimbursement rate of 10% was an estimate of the Executive Director time, and that actual time expended on this grant exceeded the initial estimate.

1.B. We are not in agreement with the OIG position that \$44,014 of expenses is unsupported. Since most of the expenses were for salaries, compensation and web site development, such records do exist to support the expenses, and contacts by the EPA would confirm the existence of the services and employment of staff.

1.B-1. OIG questioned \$44,014 as unsupported costs because CCAR did not maintain adequate time records. It has always been our policy that CCAR employees maintain weekly records of work activity. While the detail of hours spent on each activity may not have always been clear, we do feel that the amount

of such salaries charged to the grant reasonably reflected the actual time spent by the employees. Furthermore, while you may argue that claims were based on estimates, we feel we can adequately support that such estimates reasonably reflect the actual time and effort. For example, as previously noted for our fiscal years ended February 28, 1998 and prior, the vast majority of our activities and related expenses were directly related to the funding provided by the EPA grants. The EPA funding and related program activities (with the exception of 1996) comprised over 80% of our actual program activities in some years and over 90% in others. (See attached Exhibit #1 that illustrates this).

1.B-2. OIG questioned \$3,623 of travel costs because CCAR's accounting system was deficient. While there might be some unallowable travel costs, our position is that the vast majority was allowable and did relate to federal activities. As indicated in the OIG report, only a limited review was performed with respect to such claims and expenditures. Our position is that CCAR maintained adequate documentation for the vast majority of such expenditures.

1.B-3. OIG questioned \$18,993 of the remaining costs because CCAR did not have written accounting procedures regarding allocation of joint or common costs and did not submit an indirect cost rate proposal. We feel such costs are allowable and can be supported. To our knowledge, the underlying documentation (invoices, receipts, cancelled checks, etc.) still exists for such costs. Additionally, the majority of such costs were direct costs related to the EPA grants.

1.B-4. OIG questioned \$989, which was the difference between the \$90,000 claimed on the Financial Status Report and the \$89,071 supported in the accounting records. At this time, we have not had the resources to investigate this in detail. It would be helpful if you could please provide us with a recap or detail of how the \$89,071 was determined.

#### **Exhibit D: Summary Results for Cooperative Agreement CX82836601**

In Exhibit C, the OIG is questioning the entire \$171,837 claimed under the cooperative agreement. Of this amount, \$18,558 is referred to as ineligible and \$153,279 is referred to as unsupported. (See general response at Exhibit B.)

Notes 1.A-1, A-2. Ineligible Executive Director's salary amounts consisting of \$10,372 related to work hour adjustment and \$7,232 related to excess over ceiling. (See response at Exhibit B.)

1.A-3. The report questions \$954 of unauthorized holiday pay. We are not currently challenging this matter.

1.B, B-1, B-2, B-3, B-4. We are not in agreement with your position that \$86,865 of expenses is unsupported. (See responses at Exhibits B and C.)

Sincerely,

LIREL HOLT  
Chairman, CCAR

ROBERT G. STEWART  
Acting President, CCAR



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