U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Audit of American Recovery and Reinvestment Act Cooperative Agreement 2A-00E85701 Awarded to the Greater Lansing Area Clean Cities

Report No. 14-R-0088 **January 9, 2014**

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Abbreviations

CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
GLACC	Greater Lansing Area Clean Cities
IPA	Independent Public Accounting
OG&C	Ollie Green & Company
OIG	Office of Inspector General

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U.S. Environmental Protection Agency
Office of Inspector General

14-R-0088
January 9, 2014

At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA) awarded American Recovery and Reinvestment Act cooperative agreement 2A-00E85701 to the Greater Lansing Area Clean Cities (GLACC). The Office of Inspector General (OIG) contracted with Ollie Green & Company, an independent accounting (IPA) firm, to audit the agreement. The objectives of the audit were to determine whether GLACC's costs claimed and procurements under the cooperative agreement complied with the applicable federal requirements and whether GLACC met the Recovery Act requirements and cooperative agreement objectives.

This report addresses the following EPA themes:

- *Making a visible difference in communities across the country.*
- *Addressing climate change and improving air quality.*
- *Launching a new era of state, tribal and local partnerships.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140109-14-R-0088.pdf

Audit of American Recovery and Reinvestment Act Cooperative Agreement 2A-00E85701 Awarded to the Greater Lansing Area Clean Cities

What the IPA Auditor Found

The IPA found that the costs claimed by GLACC were generally not allowable because two contracts with conflicts of interest were awarded under the cooperative agreement. In addition, the IPA found that the accounting system used by GLACC needs improvement to better identify costs by project.

GLACC awarded contracts with conflicts of interest, resulting in questioned costs of $805,759.

The IPA found that except for the two contracts with conflicts of interest, GLACC complied with the procurement requirements of the Code of Federal Regulations (CFR) under 40 CFR Part 30 and the applicable Recovery Act requirements. The IPA also found that GLACC met all cooperative agreement objectives.

In addition, the IPA identified a concern about GLACC's lack of physical entity, which increased the government's risk that the work under the cooperative agreement may not be completed.

The IPA is responsible for the content of the audit report. The OIG performed the procedures necessary to obtain reasonable assurance about the IPA's independence, qualifications, technical approach and audit results. Having done so, the OIG accepts the IPA's conclusions and recommendations.

Recommendations

The IPA's report recommended that the Region 5 Regional Administrator require GLACC to recover the questioned costs of $805,759 due to conflicts of interest. The report also recommended that the Regional Administrator verify that GLACC's accounting system is adequate for providing accurate and complete disclosure of financial results of each federally sponsored program, as required by 40 CFR 30.21(b)(1), prior to any future award.

GLACC disagreed with the findings and recommendations. Region 5 disagreed with the accounting system issue, and stated that the region did not have sufficient information to comment on the conflict of interest issue.

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

THE INSPECTOR GENERAL

January 9, 2014

MEMORANDUM

SUBJECT: Audit of American Recovery and Reinvestment Act Cooperative Agreement 2A-00E85701 Awarded to the Greater Lansing Area Clean Cities
Report No. 14-R-0088

FROM: Arthur A. Elkins Jr.

TO: Susan Hedman, Regional Administrator
Region 5

This memorandum transmits the final report for the audit of American Recovery and Reinvestment Act cooperative agreement 2A-00E85701 awarded to the Greater Lansing Area Clean Cities.

The independent public accounting (IPA) firm Ollie Green & Company conducted this audit on behalf of the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The audit was required to be conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The IPA is responsible for the audit report and the conclusions expressed in that report. The OIG performed the procedures necessary to obtain a reasonable assurance about the IPA's independence, qualifications, technical approach and audit results. Having done so, the OIG accepts the IPA's conclusions and recommendations.

The IPA's full report is attached. The OIG prepared a status of recommendations and potential monetary benefits table that summarizes the findings the IPA has identified and the corrective actions it recommends. The recommendations represent the opinion of the IPA and the OIG, and do not necessarily represent the final position of the EPA. EPA managers, in accordance with established audit resolution procedures, will make a final determination on matters in this report.

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 May 9, 2014. To expedite the resolution process, please also email an electronic version of your management decision to 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 Audit, at (202) 566-0565 or eyermann.richard@epa.gov; or Robert Adachi, Product Line Director, at (415) 947-4537 or adachi.robert@epa.gov.

OLLIE GREEN & COMPANY

CPA SM The CPA, Never Underestimate The Value SM

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Susan Savitch, CPA

Andrea Morris, CPA
Sharon Adams, CPA, CIA

Audit of American Recovery and Reinvestment Act Funded Cooperative Agreement No. 2A-00E85701 awarded to the Greater Lansing Area Clean Cities

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November 20, 2013

Mr. Robert Adachi, Director of Forensic Audits
U.S. Environmental Protection Agency
Office of Inspector General
San Francisco, CA 94105

Mr. Adachi:

Please find attached a copy of the final audit report of our Recovery Act audit of Cooperative Agreement No. 2A-00E85701 awarded to Greater Lansing Area Clean Cities (GLACC) on July 21, 2009. Our audit was conducted in accordance with the terms and conditions of Contract No. EP-G12H-00536 dated September 21, 2012 and Government Auditing Standards, Revised 2011.

We appreciate the opportunity to have worked with the U.S Environmental Protection Agency, Office of Inspector General. Please contact me with any questions you may have.

Sincerely,

Ollie Green

Ollie Green, MBA, CPA
Managing Partner

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Appendices

Introduction

Purpose

The purpose of our audit was to determine whether Greater Lansing Clean Cities (GLACC) costs claimed under the cooperative agreement were allowable under the Code of Federal Regulations (CFR) in 40 CFR Part 30; whether procurements under cooperative agreement 2A-00E85701 complied with 40 CFR Part 30 requirements; whether GLACC complied with Section 1605 (Buy American), Section 1606 (Wage Rate Requirements/Davis Bacon Act) and Section 1512 (Reporting) of the American Recovery and Reinvestment Act of 2009 (Recovery Act); and whether the objectives of the cooperative agreement were met.

Background

GLACC was awarded cooperative agreement 2A-00E85701 by the U.S. Environmental Protection Agency (EPA) on July 21, 2009. The purpose of the cooperative agreement was to retrofit 405 public school buses with emission reduction equipment and replace six public school buses with lower emission vehicles. The cooperative agreement was later modified to reduce the number of retrofits to 364 and increase the number of new schools buses to 10. The total amount of the cooperative agreement is $1,670,325. The federal share is 64 percent or $1,073,528 funded with Recovery Act monies and GLACC's contribution is 36 percent or $596,799. The period of performance was from July 29, 2009 through March 31, 2011. Funding for this cooperative agreement was part of the $300 million Diesel Emissions Reduction Act Program funded by Recovery Act.

Scope and Methodology

Our Recovery Act performance audit covered the period from June 29, 2009 through March 31, 2011. We conducted our fieldwork at GLACC in Grande Ledge, Michigan from November 12 to November 16, 2012, and from February 25 to February 27, 2013. The scope of our audit was limited to determining whether:

- The costs claimed under the cooperative agreement were allowable under 40 CFR Part 30;
- GLACC's procurements under the cooperative agreement were conducted in accordance with 40 CFR Part 30;
- GLACC complied with Recovery Act Section 1605 (Buy American), Section 1606 (Wage Rate Requirements/Davis Bacon Act) and Section 1512 (Reporting); and
- The objectives of the cooperative agreement were met.

The scope of the audit included the review of GLACC's procurement processes and controls related to Recovery Act cooperative agreement transactions. Our work included reviewing GLACC's solicitation, evaluation, tabulation and award processes related to cooperative agreement 2A-00E85701 procurements. Our audit methodology also included conducting structured interviews with officials at GLACC to gain an understanding about the internal controls, processes, systems and procedures used to capture, measure and report costs, process procurement actions, and ensure cooperative agreement objectives are met.

We requested, received and reviewed documentation from GLACC to assess GLACC's procurement processes and internal controls over procurements. This documentation included GLACC's procurement policies and procedures and a written description of the internal controls in place during the audit period designed to detect and/or prevent potential errors related to the procurement process. We also requested, received and reviewed a list of buses that had been retrofitted and new bus purchases. We inspected a judgmental sample of new buses and retrofitted buses to validate that retrofit equipment specified in the cooperative agreement had been installed. We also inspected a judgmental sample of vendor invoices to verify that costs claimed were allowable and that program objectives were met. Finally, we reviewed documentation to determine compliance with Recovery Act requirements.

A performance audit includes gaining an understanding of internal controls considered significant to the audit objectives, testing controls, and testing compliance with significant laws, regulations and other requirements. For this engagement, we obtained an understanding of GLACC's procurement processes and internal controls. The testing of internal controls over this process was not determined to be significant to our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

Results of the Audit

Our audit found that costs claimed under the cooperative agreement were generally not allowable because of two conflicts of interest existed during the period of performance. As a result, we questioned $805,759 in costs claimed as illustrated in Table 1 below. Our audit also found that the accounting system used by GLACC needs improvement.

Except for the two instances of conflict of interest, GLACC complied with the procurement requirements of 40 CFR Part 30. GLACC also complied with applicable Recovery Act requirements and met all program objectives.

Table 1
Summary of Questioned Costs

Cost Category	Amount Claimed	Amount Questioned	Note
Personnel	$33,298	$33,298	1
Fringe Benefits	0		
Travel	92		
Equipment	0		
Supplies	1,001		
Contractual	0		
Other	1,039,137	$772,461	1
Indirect Charges	0		
Totals	$1,073,528	$805,759	

Sources: Amounts claimed were from the recipient's accounting system and U.S. EPA payment requests. Costs questioned were based on our analysis of the data.

Note 1: We questioned $805,759 of the $1,073,528 claimed as unsupported because these costs were claimed under contracts involving conflict of interest. The $805,759 consists of $33,298 in personnel costs and $772,461 in other costs. As a result of the conflict of interest, we could not determine whether procurement decisions made by GLACC, including the contract prices, were influenced by the subrecipient/Board Member and/or by the contractor/Executive Director. This issue is explained in more detail under the section "*GLACC Has Conflicts of Interest on the Board of Directors and With Contracted Staff.*"

Cost Allowability

Our audit found that generally, costs claimed under the cooperative agreement were not allowable because two conflicts of interest existed during the period of performance. As a result, we questioned $805,759 in costs claimed. In addition, we found that GLACC's accounting system needs improvement in order to meet federal requirements.

GLACC Has Conflicts of Interest on the Board of Directors and With Contracted Staff

Our audit found that GLACC has conflicts of interest on the Board of Directors and with contracted staff. The first conflict of interest involved the appointment of a subrecipient's family member to GLACC's Board of Directors on June 14, 2010. The subrecipient was paid $772,461 under the cooperative agreement. The second conflict of interest involved GLACC's use of a contractor to provide professional services while also appointing one of the contractor's owners as GLACC's Executive Director. The contractor was paid $33,298 under the cooperative agreement.

According to 40 CFR 30.42, the recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated, has a financial or other interest in the firm selected for an award. The officers, employees, and agents of the recipient shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, or parties to subagreements.

Our audit found no written internal controls or firewalls designed to mitigate the impact of the aforementioned conflicts. As a result, we could not determine whether procurement decisions made by GLACC were influenced by the subrecipient/Board Member and/or by the contractor/Executive Director. We therefore question $805,759 in costs paid to the subrecipient and to the contractor.

Board of Directors Conflict

GLACC's audit coordinator indicated that a subrecipient's family became a Board member after the proposal process and partner selection and after the EPA awarded the grant. He was elected as a Board member during the grant period after GLACC learned of his qualifications, experience and interest in supporting GLACC's mission. The audit coordinator said that GLACC's Board had fully disclosed and was transparent about the appointment of the subrecipient's family member to the Board. In addition, he said the individual's presence on the Board had no influence on the amount of funds paid to the subrecipient. Our audit did not identify any special measures taken by GLACC to recuse the subrecipient's family member/Board member from participating on GLACC business dealing with subrecipient transactions. Therefore the conflict of interest was not mitigated.

Outside Consulting Conflict

The audit coordinator indicated that the contractor who also served as GLACC's Executive Director has never served on GLACC's Board and has no voting privileges. This individual worked under the direction of the Board of Directors. He further indicated that this individual is a 50% owner of the contractor company which has fully managed GLACC's operations under a contract with GLACC since February 2007. At the time of the grant proposal development and award, the contractor was already under contract to provide full management services for GLACC, including proposal development and grant administration. During the contract that covered the first part of this grant management period July 2009 through June 2010, GLACC was contractually obligated to continue using the contractor for the management of all grants. He indicated that for the grant period continuing July 2010 through March 2011, the GLACC Board renewed the contract with the contractor for management of the grant and other services.

We acknowledge that GLACC had contracted with the contractor company prior to being awarded the cooperative agreement. Our audit found no special measures taken by GLACC to mitigate the inherent conflicts of interest of having a contractor perform the functions of GLACC's Executive Director. These inherent risks include having responsibility for GLACC's procurements, check signatory, disbursements and other decision making responsibilities of an executive director while also serving as a contractor.

GLACC's Accounting System Needs Improvement

Our audit found that the accounting system used by GLACC needs improvement. We found that the accounting system established by GLACC could not generate cost reports by project. For example, GLACC could not provide reports to capture total program costs, cash receipts, and cash disbursements related to cooperative agreement transactions without explanation and/or significant adjustments. Title 40 CFR 30.21(b)(1) requires the recipients' financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in 40 CFR 30.52. Our audit found that GLACC had not properly designed the accounting system to segregate transactions by project. As a result, some reports generated by GLACC contained other information that required explanations and/or adjustments to be useful. Despite the accounting system issue, we were able to reconcile and verify the costs claimed under the cooperative agreement to the accounting system data when used in conjunction with hard copy documentation; therefore, we did not question costs under this issue.

Procurements

Our audit found that except for the two conflicts of interest discussed above under "*GLACC Has Conflicts of Interest on the Board of Directors and With Contracted Staff*", GLACC complied with the procurement requirements of 40 CFR Part 30.

Recovery Act Compliance

The objective of this component of our audit was to determine GLACC's compliance with Recovery Act requirements under Section 1605 (Buy American), Section 1606 (Wage Rate Requirements/Davis Bacon Act) and Section 1512 (Reporting). Our audit found that Section 1605 (Buy American) and Section 1606 (Wage Rate Requirements/Davis Bacon) were not applicable to the projects under the cooperative agreement. We found that GLACC submitted the Section 1512 reports timely and reported the jobs created and retained in accordance with the requirements.

Cooperative Agreement Objectives

The objective of the cooperative agreement was to retrofit 364 public school buses with emission reducing equipment and to replace 10 public school buses. Our audit found that these objectives were met.

Recommendations:

We recommend that the Regional Administrator, Region 5:

1. Recover the questioned costs of $805,759 due to conflict of interest.

2. Verify that GLACC's accounting system is adequate for providing accurate and complete disclosure of financial results of each federally sponsored program as required by 40 CFR 30.21(b)(1) prior to any future award.

Recipient and Agency Comments

OG&C issued a draft report on July 18, 2013, and provided copies to GLACC, EPA Region 5 and the OIG. We received written comments on the draft report from GLACC on August 27, 2013. Region 5 provided written comments on August 28, 2013. The exit conference was conducted with GLACC, Region 5 and the OIG on September 18, 2013, via teleconference.

GLACC disagreed that there are conflicts of interest and indicated that the circumstances did not show a conflict in selection, implementation or administration of the grants provided through the cooperative agreement. EPA

Region 5 indicated that it does not have sufficient information regarding the conflict of interest issue to respond to the recommendation.

GLACC disagreed that improvements are needed with its accounting system and indicated that it used Quickbooks accounting software which could generate cost reports without explanation and/or significant adjustments. GLACC did acknowledge that an issue came up during the audit where Quickbooks did not allow for line item allocation of partial payments. EPA Region 5 disagreed with the finding and indicated that GLACC provided accurate and complete disclosure of financial results for the cooperative agreement.

GLACC and Region 5 disagreed that Recovery Act Section 1512 reporting was not always timely. GLACC indicated that there were slight delays because it worked closely with the EPA to ensure that reports were correct prior to final submission. Subsequent to the final exit conference, Region 5 provided evidence to show that the delays were within the extensions allowed by the Recovery Accountability and Transparency Board.

GLACC and Region 5 disagreed with the salvaged bus issue. GLACC indicated that the buses were salvaged as a result of more stringent interpretation of the inspection requirements by the Michigan State Police. Region 5 stated that the buses were retrofitted in accordance with the cooperative agreement requirements and that the salvage was due to circumstance beyond GLACC's control.

The full text of GLACC's and Region 5's written responses are attached in Appendix A and B respectively.

Ollie Green & Company Response

Based on comments from GLACC and Region 5, along with the documentation subsequently provided, we have removed the issues relating to the Recovery Act Section 1512 reporting and salvaging of retrofitted buses. Our positions on the conflict of interest and accounting system issues remain unchanged. The subrecipient's family member was on GLACC's Board and the contractor served as GLACC's Executive Director. Both parties appeared to have been involved in the administration of the contract, contrary to the codes of conduct under 40 CFR 30.42. On the accounting system issue, we found that several reports provided during fieldwork did not capture total program costs, cash receipts, and/or cash disbursements related to the cooperative agreement without explanation and/or significant adjustments. GLACC also acknowledged the system's inability to allocate partial payments to line item costs. This issue was problematic throughout the audit.

Details of our responses to GLACC's and Region 5's comments are embedded as text boxes in Appendix A and B respectively.

Other Matter

GLACC is a 501(c)(3) nonprofit entity created in 2005. GLACC is a coalition of stakeholders working to achieve cleaner air and energy security in mid-Michigan through alternative fuel and vehicle usage and fuel economy practices. GLACC certified in its representations and certifications that it had the legal authority to apply for Federal assistance and the institutional, managerial, and financial capacity to ensure proper planning, management and completion of the project described in its application. However, we found during our audit that GLACC had no employees, no office or equipment and consisted only of a Board of Directors. All administrative and operational responsibilities related to cooperative agreement 2A-00E85701 had been outsourced to an outside contractor. GLACC used two subrecipients to carry out the project requirements of the cooperative agreement. The lack of physical entity increased the risk to the government that the work under the cooperative agreement may not be completed. We believe the government should consider this risk in future grant awards.

Recipient and Agency Comments

GLACC disagreed that the lack of physical entity increases the level of risk to the government that the project may not be completed nor does it agree that this should affect GLACC's eligibility to receive grants. Region 5 did not comment on this issue.

The full text of GLACC's and Region 5's written responses are attached in Appendix A and B respectively.

Ollie Green & Company Response

While we understand the limitations of a small non-profit organization, we believe the lack of physical entity and having a contractor acting on behalf of the entity are risks that the government should considered in its award decisions. We have modified the final report to advise the government of the risks rather than recommending the government to reevaluate its decisions to award grants to GLACC.

Details of our responses to GLACC's and Region 5's comments are embedded as text boxes in Appendix A and B respectively.

Appendix A

Fueling a Brighter
Tomorrow Today

GLACC Response to Draft Report

August 28, 2013

Mr. Ollie Green
Ollie Green and Company, CPAs
1300 South Fourth Street,
Suite 100
Louisville, KY 48208

Dear Mr. Green,

Greater Lansing Area Clean Cities (GLACC) provides this written response to audit findings dated July 18, 2013 documented by Ollie Green & Company, contractor to the Office of Inspector General, relative to GLACC's American Recovery and Reinvestment Act EPA Cooperative Agreement {cooperative agreement) No. 2A-OOE85701. GLACC's responses to each finding are outlined below.

Before addressing those items however, GLACC wishes to remind you that the project as implemented fulfilled the objectives of the American Recovery and Reinvestment Act by allowing GLACC and its subrecipients to receive valuable funding to acquire EPA approved environmental equipment and as a result enabled jobs to be retained and created both locally and nationally. This effort extended the life, utility and mileage efficiency of school buses in the region. The installation of this equipment also provided important environmental and health benefits. In fact, eighty-five {85) percent of one of the subrecipient's passengers are youth with special needs, including some with asthmatic conditions. The buses operate largely in municipal areas, which already present air pollution concerns.The use of the retrofitted buses unquestionably reduced pollutants that would be emitted otherwise from the buses.

1. GLACC Has Conflicts of Interest on the Board of Directors and With Contracted Staff:

Specifically the draft Audit Report states:

> ***{Our audit found no written internal controls or firewalls designed to mitigate the impact of the aforementioned conflicts. As a result we could not determine whether procurement decisions made by GLACC were influenced by the subrecipient/Board Member and/or by the contractor/ Executive Director. We therefore question $805,759 ($772,461 + $33,298)} in costs paid to the subrecipient and to the contractor.}***

A review of the circumstances do not show a conflict in selection, implementation or administration of the grants provided through the cooperative agreement.

GLACC does have a written Conflict of Interest policy contained in the organization's Articles of Incorporation & Bylaws, Rules of Administrative Procedure as amended January 30, 2008 (Article X, Sec.5, Conflict of Interest), which states:

> ***No particular matter of GLACC shall, in the absence of fraud, be affected or invalidated by the fact that the personal representative of GLACC of any member organization of GLACC, or any corporation, firm or association of which he or she may be a director, officer, stockholder, or member, may be a party to or an interest, pecuniary or otherwise, in any such matter, provided that the nature and extent of his or her interest was disclosed to or known by the entire membership before acting on such matter, and provided that the representative did not participate in the matter.***

Additional responses related to each noted conflict of interest is included below.

Board of Directors Conflict

Relative to this finding, the draft Audit report states:

{Our audit did not identify any special measures taken by GLACC to recuse the subrecipient's family member/Board member from participating on GLACC business dealing with subrecipient transactions. Therefore the conflict of interest was not mitigated.}

The subrecipient's family member was approached to be a volunteer Board Member of GLACC after demonstrating extensive knowledge and expertise in the area of environmental best practices and green fleet issues. This individual provided the organization with a skill set that further enhanced its mission to improve air quality in the region for the public benefit. As a 501C3 organization with limited resources, this individual brought specific skills to the organization that have benefited the region GLACC serves.

The relationship of the Board Member to the subrecipient company was fully disclosed, and potential conflicts of interest were discussed prior to approval to the Board. GLACC as noted maintains a written conflict of interest policy in its articles of incorporation, which governs board action and daily business. This policy has been reviewed during A133 audits. GLACC's Board understood its obligation to protect the interest of EPA and believes that in good faith it has adequately demonstrated no conflict of interest existed during the selection, award and administration of this project and that it took steps to ensure work plans were followed.

As stated in the draft Audit Report, the subrecipient's family member was elected to the Board on June 14, 2010 long after the proposal process and partner selection was made, also substantially after the grant was awarded on July 21, 2009, and even after bidding for equipment was complete on January 21, 2010. The subrecipient's family member had no influence on the amount of funds paid.

As a safeguard and firewall, the GLACC Project Administrator established a process for the subrecipient to submit reports and requests for reimbursement for eligible funds paid under the approved project plan. The GLACC Project Administrator reviewed subrecipient reimbursement requests in comparison to the work plan and determined if costs were allowable under the approved grant plan prior to requesting reimbursement from the EPA for approved technology. This administrative process, which did not require Board action, was established in consultation with EPA to ensure funds were spent within the approved work plan and provided a control measure for reimbursing approved project expenses.

In addition, any funds whenever received by the subrecipient were passed on to a third party vendor selected through a bidding process. The subrecipient received no funds for its expenses, installation or maintenance of equipment purchased through the grant. The grant was in the final phase of administration at the time when the subrecipient's family member actually joined the Board for his first actual Board meeting on January 11, 2011. All installation of equipment finished on March 31, 2011.

In short, following the election of the subrecipient's family member to the GLACC Board, the Board made no decisions and conducted no business relative to the selection, award, or administration of contracts with the subrecipient, and thus there .was no occasion which necessitated the subrecipient's family member to be recused from participation. Had it been necessary for the Board to conduct business relative to the grant following the election of the subrecipient's family member to the Board, the subrecipient's family member would not have participated in the matter pursuant to the organization's conflict of interest policy stated above.

GLACC disputes this finding. No conflict of interest existed pursuant to 40 CFR Part 30.42.

Outside Consulting Conflict

Relative to this finding, the draft Audit Report states:

{We acknowledge that GLACC had contracted with the contractor company prior to being awarded the cooperative agreement. Our audit found no special measures taken by GLACC to

mitigate the inherent conflicts of interest of having a contractor perform the functions of GLACC's Executive Director.}

The draft report does not indicate what “inherent conflicts of interest” means, or what conflict of interest is perceived to have existed. GLACC has, since 2007, contracted a professional firm to provide services to the organization, including functioning as contracted staff under the supervision of the Board of Directors. It is a common practice for nonprofit organizations to utilize contractors to perform duties, including leadership roles, to fulfill the mission of the organization in a cost-effective and efficient manner. The role of Executive Director has no, nor had at the time of the proposal or during the grant period, voting privileges and, thus, had no decision-making authority, nor influence over procurement decisions involving the contractor. In this case, GLACC also adhered to its Conflict of Interest policy stated above.

GLACC disputes this finding. No conflict of interest existed pursuant to 40 CFR Part 30.42.

OG&C Response 1. We disagree with GLACC’s position that no conflict of interest existed in the selection, implementation or administration of the grants provided through the cooperative agreement. We acknowleged during the audit that GLACC had conflict of interest policies and procedures in its Bylaws. However, we found no controls in place to ensure that the subrecipient family member and executive director recused themselves on matters related to their contracts. Both the subrecipient family member and the Executive Director participated in the administration of the cooperative agreement in their respective roles as Board Member and Executive Director of GLACC. This condition is contrary to the conflict of interest requirements of 40 CFR 30.42**.** Title 40 CFR 30.42 states that “The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.” Because we found no written controls specifically designed to address the subrecipient family member and Executive Director conflicts that existed, no change is made to this finding.

2. GLACC’s Accounting System Needs Improvement

The draft Audit Report states:

{Our audit found that the accounting system used by GLACC needs improvement. We found that the accounting system established by GLACC could not generate cost reports by project. For example, GLACC could not provide reports to capture total program costs, cash receipts, and cash disbursements related to cooperative agreement transactions without explanation and/or significant adjustments. Title 40 CFR 30.21 (b}{l} requires the recipients

′ financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally -sponsored project or program in accordance with the reporting requirements set forth in Title 40 CFR 30.52. Our audit found that GLACC had not properly designed the accounting system to segregate transactions by project. As a result, some reports generated by GLACC contained other information that required explanations and/or adjustments to be useful.}

GLACC uses Quickbooks accounting software, which could generate cost reports by project without explanation and/or significant adjustments. GLACC provided numerous project cost reports, including total program costs, cash receipts, and cash disbursements, generated by Quickbooks without explanation required. The auditor requested all reports be exported into spreadsheets and did not view the actual Quickbooks accounting system files. The perception of the system being incapable of generating these reports was due to the requests that reports be exported and manipulated in different software.

One Quickbooks issue did exist whereby bills entered into the system would not allow for line item allocation of partial payments. As GLACC previously shared with the auditor, this issue was corrected with a software update and GLACC adopted new procedures during the project. This single issue required additional explanation on one report type requested by the auditor's staff only.

GLACC disputes this finding and maintains the organization complied with the referenced federal regulations.

OG&C Response 2. We disagree with GLACC's position that the Quicksbooks accounting system always generated cost reports that required no explanation and/or significant adjustments. Several reports provided during fieldwork did not capture total program costs, cash receipts, and cash disbursements related to cooperative agreement transactions without explanation and/or significant adjustments. GLACC acknowledged in its response that the system would not allow for line item allocation of partial payments. This was problematic throughout the audit. Other issues included duplicate check numbers and missing check numbers on cash disbursement transaction requests. Title 40 CFR 30.21(b)(1) requires the recipients' financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in 40 CFR 30.52. No change is made to this audit finding.

3. GLACC Did Not Always Submit Required Section 1512 Reporting On a Timely Basis.

Relative to this finding, the draft Audit Report states:

{We found substantial compliance with ARRA requirements. However, we found that reporting was not always timely.}; and, {Our audit found that GLACC did not have

adequate controls and procedures in place to ensure that ARRA Section 1512 reports are submitted on a timely basis. This lack of control caused two of the three quarterly reports selected in our sample to be submitted late. GLACC's audit coordinator indicated that GLACC has implemented procedural changes to ensure proper reporting on federally funded projects.}

GLACC did have controls and procedures in place to ensure that ARRA Section 1512 reports were submitted on a timely basis; however, as this was the first cooperative agreement administered by GLACC, the organization worked closely with the EPA to ensure reports were completed correctly prior to final submission. This process led to some slight delays in report submission in the two cited examples, twelve days and four days respectively. As previously indicated, based on experience gained through administering this grant, GLACC will ensure timely reporting for any future federally funded projects.

<u>GLACC acknowledges this finding, but requests the finding be closed.</u>

OG&C Response 3. GLACC indicated that it had worked closely with EPA, Region 5 to ensure completeness and correctness of the reports prior to submission and that this process led to some slight delays. After discussing this finding with Region 5, Ollie Green & Company and the OIG agreed that the Late 1512 Reporting finding should be eliminated from the final GLACC report due to: (1) support provided by Region 5 showing extensions allowed by the Recovery Accountability and Transparency Board for the reporting periods in question; and (2) confirmation obtained from the FederalReporting.gov helpdesk that submissions are considered timely within the extension timeframe.

4. GLACC's Subrecipient Salvaged 22 Percent of the Retrofitted Buses Within Two Years of Project Period End.

The draft Audit Report states:

{We found that 77 of the 364 {22 percent) of the retrofitted buses had been salvaged within two years of project period end by GLACC's subrecipient. As illustrated in Table 2 below one bus was salvaged prior to project period end of March 31, 2011, 27 buses were salvaged between April 1, 2011 and March 31, 2012 (within one year after project period end) and 49 buses were salvaged between April 1, 2012 and March 31, 2013 (within two years after project period end).

In GLACC's application for the award, there was an estimated useful life of five years or more for the buses selected to be retrofitted. EPA awarded the cooperative agreement based on the terms in the application and EPA adopted the application as the Statement of Work for the project.

GLACC's audit coordinator indicated the 77 salvaged buses did not pass the Michigan State Police Inspection Program or they had mechanical problems. He also indicated that the subrecipient replaced all salvaged buses with new EPA compliant buses.
While we acknowledge management's explanation, we believe a 22 percent inspection failure rate is unreasonably high and management should have had prior indications of problems. The costs spent retrofitting these buses yielded no environmental benefit. As a result, we question the cost claimed in connection with the retrofit of these 77 buses, totaling $103,707. However, these costs are already being questioned under the Conflict of Interest issue. Therefore, no additional costs are being questioned under this issue.}

This project included the installation of emission-reducing retrofit technologies, specifically diesel oxidation catalysts (DOCs), on school buses with engine model years ranging from 1994 to 2003. As part of EPA DERA projects, these technologies (DOCs) are generally installed on older buses (pre-2004) given that newer vehicles are manufactured to be lower emitting than in the past. Projects involving retrofit technologies target a narrow window of model years - vehicles must be old enough to necessitate the technology and yet have a reasonable expectation of a useful life of five years. In good faith, GLACC worked with the subrecipient and the EPA to identify eligible vehicles for inclusion and made best efforts to ensure included vehicles were anticipated to have a useful life of five years. GLACC provided a list identifying each vehicle and its years of use to the EPA, which was approved by the EPA.

As stated above, this type of project includes older vehicles, which are inherently more susceptible to unforeseen issues than newer model year vehicles. With any vehicle type, particularly those targeted by this type of technology, projecting potential issues is difficult. School buses, especially, are subject to more stringent requirements to ensure the safety of the vulnerable riders they transport. The Michigan State Police (MSP) Motor Carrier Division regulates school buses in Michigan. MSP has specific regulations for operating school transportation vehicles (Michigan Public Act 187 of 1990) that operate in the state to ensure safety for Michigan's school children. During the inspection process safety related concerns are addressed with each transportation provider and resolutions are made to ensure safety. An unusually high number of the salvaged vehicles identified in the draft Audit Report were removed from the road as a result of this MSP inspection process becoming more stringent. Additionally, several vehicles were involved in accidents or rendered inoperable due to maintenance issues. In all cases, the subrecipient replaced salvaged vehicles with new EPA 2010 comp leant vehicles. This action is consistent with GLACC's mission and the objectives of the EPA DERA program. It also resulted in the creation of an even greater economic and environmental benefit. The fact remains that 78 percent of the retrofitted vehicles continue to provide substantial reductions in pollutants and that, while the remaining 22 percent did not achieve the desired five year life intended, the remaining salvaged vehicles as retrofitted did provide pollution reduction until they were no longer usable. In addition, vehicles that replaced the salvaged ones clearly have met the more stringent pollution reduction requirements for newer model vehicles.

GLACC acknowledges 77 vehicles were salvaged within three years of installation as stated; however, GLACC maintains that the organization made reasonable and best efforts to ensure selected vehicles had an anticipated operational-life of five years or greater.

OG&C Response 4. The issue has been removed from the final report based on subsequent evidence provided by GLACC demonstrating that the salvage was primarily due to more strict interpretation of the inspection requirements by the Michigan State Police.

5. Other Matters

Following the recommendations provided in the draft Audit Report, an additional section has been included, which states the following:

{GLACC is a 501(c)(3) nonprofit entity created in 2005. GLACC is a coalition of stakeholders working to achieve cleaner air and energy security in mid-Michigan through alternative fuel and vehicle usage and fuel economy practices. GLACC certified in its representations and certifications that it had the legal authority to apply for Federal assistance and the institutional, managerial, and financial capacity to ensure proper planning, management and completion of the project described in its application. However, we found during our audit that GLACC had no employees, no office or equipment and consisted only of a Board of Directors. All administrative and operational responsibilities related to Cooperative Agreement 2A-OOE85701 had been outsourced to an outside contractor. GLACC used two subrecipients to carry out the project requirements of the cooperative agreement. This lack of physical entity as described above increases the level of risk to the government that the project may not be completed and also raises questions and concerns about GLACC's eligibility to receive Federal government grants under these circumstances. Based on this information, we believe that the government should reevaluate its decisions to award grants to GLACC when these conditions exist.}

GLACC rejects the notion that "this lack of a physical entity as described above increases the level of risk to the government that the project may not be completed and also raises questions and concerns about GLACC's eligibility to receive Federal government grants under these circumstances." There is no basis for this statement. Like many small nonprofit organizations, GLACC contracts services to ensure cost-effective, professional support for development and implementation of its programs and operations. It is quite common for nonprofit organizations to fully contract with a management service organization or association management company to provide administrative, executive, and program management services. As a small, community-based nonprofit organization with a limited operating budget and led by a volunteer Board of Directors, GLACC has effectively utilized a contractual relationship to provide a physical presence for the organization as well as professional contracted staff. Not only is this type of arrangement a common practice in the nonprofit sector, but it was also fully disclosed to the government during the proposal and awarding periods.

Further, the statement that "GLACC used two subrecipients to carry out the project requirements of the cooperative agreement" indicates a lack of understanding of the project's scope and intent.

The very nature of these types of projects generally involves a nonprofit organization applying for funds on behalf of a fleet or fleets who then serve as subrecipients.

GLACC disputes thi s section and the suggestion that GLACC's operational structure raises questions about the organization's eligibility for federal funds.

OG&C Response 5. While we understand the limitations of a small non-profit organization, we believe the lack of physical entity and having a contractor acting on behalf of the entity are risks that the government should considered in its award decisions. We have modified the final report to advise the government of the risks rather than recommending the government to reevaluate its decisions to award grants to GLACC.

ClosingStatements

GLACC maintains that the organization effectively and successfully administered this project compliant with government standards and always under the guidance and oversight of EPA program management staff. At no time during the first government audit in March 2010 or the grant management process were the concerns expressed in the draft Audit Report raised. In contrast, the EPA lauded GLACC for its effective management of the grant, which yielded significant environmental impact and included extremely low administrative costs (less than 5% of the award). GLACC sincerely believes that the local and national economy received benefits, that local employment increased, and that pollution decreased, all of which have fulfilled the purpose of the American Recovery and Reinvestment Act.

While the grant enabled GLACC to advance its objective of increasing the usage of clean transportation technologies in the region to reduce emissions, it came at a high price. This extensive and costly audit process will greatly deter GLACC from applying for federal funds in the future and has caused the small organization significant financial hardship. It also caused significant strain on GLACC's relationship with the subrecipient, who is an environmental leader in the region, but will no longer consider comparable projects in the future due to the financial and time-cost burden experienced through this particularly onerous audit process. Additionally, the lengthy audit process has diverted GLACC from its mission of increasing awareness and usage of clean fuels, vehicles, and technologies in the region, which was the goal of the project to begin with.

GLACC respectfully requests these findings be removed based on the responses provided above.

Sincerely,

Kellee Christensen
Board President & Treasurer

Susan Pigg
Board Member

Dianne Holman
Board Vice President

Brian Watts
Board Member

Appendix B

EPA Region 5 Response to Draft Report

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 5
~~T1~~77 WEST JACKSON
BOULEVARD CHICAGO, IL
60604-3590

AUG 2 8 2011

MEMORANDUM

SUBJECT: Response to Draft Recovery Act Audit Report: Cooperative Agreement No.2A-OOE85701 Awarded to the Greater Lansing Area Clean Cities

FROM: Susan Hedman, Regional Administrator
Region 5

TO: Robert Adachi, Director
Office of Audit

Thank you for the opportunity to review the July 18, 2013 draft report entitled "Audit of American Recovery and Reinvestment Act Cooperative Agreement No. 2A-OOE85701 Awarded to the Greater Lansing Area Clean Cities (GLACC)."

The purpose of the audit was to determine whether the costs claimed by GLACC under the grant were allowable; whether the procurement complied with grant regulation requirements; whether GLACC complied with the American Recovery and Reinvestment Act of 2009, Section 1605 (Buy American), Section 1606 (Wage Rate Requirements/Davis Bacon Act), and Section 1512 (Reporting) requirements; and whether the objectives of the cooperative agreement were met. The grant was for the purpose of retrofitting buses to reduce diesel air emissions.

The contractor performing the audit concluded that: 1) costs of $805,759 should be recovered because of apparent conflicts of interest for two GLACC employees, and costs of $103,707 should be recovered because some buses retrofitted under the grant were subsequently taken out of service and salvaged; 2) GLACC's accounting system was not adequate; and 3) GLACC failed to timely and correctly report under the grant.

The Region's responses to the recommendations of the audit report are set forth below:

Auditor Recommendation No. 1: Recover the questioned cost of $805,759 due to a conflict of interest. In the event that the conflict of interest issue is resolved without cost recovery, EPA should recover the cost of $103,707 related to the buses that ended up being salvaged after the project was implemented.

EPA, Region 5 does not have sufficient information regarding the conflict of interest issue to respond to the recommendation at this time and suggests a careful review of materials submitted by the Grantee in response to the audit. However, when apparent conflicts of interest are identified, the determination regarding recovery of related costs must be based upon: 1) a real conflict of interest, and 2) participation in the allocation of grant money. If both questions are answered in the affirmative, costs associated with the conflict of interest would be disallowed.

Facts must be established regarding the timeline of the grant allocations and the relevant persons' employment and specific roles with the Grantee and recipient organizations, as well as any recusal agreements or other safeguards that may have been in place to prevent harm from any potential conflicts.

OG&C Response 1. Region 5 did not agree or disagree with the finding. Region 5 indicated that it did not have sufficient information regarding the conflict of interest issue to respond to the recommendation. Region 5 also discussed the criteria for cost disallowance when there is an apparent conflict of interest. Our position has not changed as a result of Region 5's response. Therefore this finding and recommendation will remain in the report as cited.

EPA, Region 5 does not agree that the cost of $103,707 should be recovered from the salvaged buses. The Region's position is that buses were retrofitted as per the grant requirement. The salvaging of buses could not have been anticipated when the buses were retrofitted and Region 5 considers this occurrence beyond GLACC's control. Of the buses salvaged because they did not pass Michigan State Police Inspection safety requirements, most were in operation for one to two years, yielding environmental benefit during this time. Further, all salvaged buses were replaced with new EPA-compliant buses.

OG&C Response 2. The issue has been removed from the final report based on subsequent evidence provided by GLACC demonstrating that the salvage was primarily due to more strict interpretation of the inspection requirements by the Michigan State Police.

Auditor Recommendation No. 2: Verify that GLACC's accounting system is adequate for providing accurate and complete disclosure of financial results of each federally sponsored program, as required by 40 CFR 30.21 (b) (I) prior to any future award.

EPA, Region 5 found that GLACC provided accurate and complete disclosure of financial results for this project. GLACC provided reports to EPA, segregating transactions by project, including cost reports by project similar to the line items in the grant.

OG&C Response 3. Region 5 disagreed that GLACC's accounting system needs improvement as cited in the draft report and stated that GLACC provided accurate and complete disclosure of financial results for this project. We disagree with Region 5's position. As explained under Appendix A, OG&C Response 2, several reports provided during fieldwork did not capture total program costs, cash receipts, and cash disbursements related to cooperative agreement transactions without explanation and/or significant adjustments. GLACC acknowledged in its response that the system would not allow for line item allocation of partial payments. This was problematic throughout the audit. Other issues included duplicate check numbers and missing check numbers on cash disbursement transaction requests. Title 40 CFR 30.21(b)(1) requires the recipients' financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in 40 CFR 30.52. No change is made to this audit finding.

Auditor Recommendation No. 3: Require GLACC to implement internal controls to ensure that all federally funded project reports are submitted on a timely basis.

EPA, Region 5 does not agree that GLACC submitted two Section 1512 reports late. Both the Office of Transportation and Air Quality and Region 5's Air and Radiation Division, the offices responsible for ensuring timeliness of Section I 512 reports, found that GLACC filed their initial reports within the appropriate I O-day timeframe.

OG&C Response 4. As explained in Appendix A, OG&C Response 3, this issue has been removed from the final report.

If you have any questions regarding our response, please contact Sharleen Phillips at 312-353-3486, or Phillips.sharleen@epa.gov.

cc: George Czerniak, ARD
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Eric Cohen, ORC
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Ollie Green & Company

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in $000s)	
Rec. No.	Page No.	Subject	Status[1]	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	6	Recover the questioned costs of $805,759 due to conflict of interest..	U	Region 5 Regional Administrator		$806	
2	6	Verify that GLACC's accounting system is adequate for providing accurate and complete disclosure of financial results of each federally sponsored program, as required by 40 CFR 30.21(b)(1) prior to any future award.	U	Region 5 Regional Administrator			

[1] 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.

Distribution

Regional Administrator, Region 5
Deputy Regional Administrator, Region 5
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, Office of Grants and Debarment,
Office of Administration and Resources Management
Audit Follow-Up Coordinator, Region 5
Grants Management Officer, Region 5
Board of Directors, Greater Lansing Area Clean Cities