



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 7

11201 Renner Boulevard  
Lenexa, Kansas 66219

OFFICE OF THE  
REGIONAL ADMINISTRATOR

JAN 28 2016

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Report No. 13-R-0367  
*Examination of Costs Claimed Under American Recovery and Reinvestment Act  
Cooperative Agreement 2A-97706701 Awarded to Grace Hill Settlement House, St. Louis Missouri*, dated August 30, 2013

**FROM:** Mark Hague *Mark Hague*

**TO:** John Trefry  
Director, Forensic Audits  
Office of Inspector General

Thank you for the opportunity to respond to the findings and recommendations in the subject audit report. Following is a summary of Region 7's overall position, along with our position on each of the report recommendations. For those report recommendations with which Region 7 agrees, we have provided high-level intended corrective actions and estimated completion dates. For those report recommendations with which Region 7 partially agrees, we have proposed modifications to the recommendations and provided high-level intended corrective actions and estimated completion dates.

**Agency's Overall Position**

The agency agrees or partially agrees with each OIG recommendation.

Region 7 would like to note that Grace Hill substantially accomplished the intent of the award. This project involved 16 beneficiaries, 7 vendors and 790 vehicles or pieces of equipment. Federal funds were expended to replace engines in tug boats, construction equipment and delivery trucks; install diesel emission reduction technology on fire trucks, ambulances, airport support vehicles, and refuse haulers; install idle reduction technology on long-haul trucks, delivery trucks, and school buses; all associated labor; and the replacement of a delivery truck. Further, the final total lifetime emission reduction for nitrogen oxides, particulate matter, hydrocarbons, carbon monoxide and carbon dioxide, as a result of this grant, was 12,342 tons. While the intent of the award was met, the manner in which the work was accomplished often times was not in compliance with federal regulations.

Therefore, Region 7's position on the report recommendations are as follows:



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No.	Recommendation	High-Level Intended Corrective Action	Estimated Completion by Quarter and FY
1.	Disallow \$1,615,343 in questioned costs and recover \$1,423,028 of that amount under the CA. If GH provides documentation that meets appropriate federal requirements or demonstrates the fairness and reasonableness of the contract prices, the amount to be recovered may be adjusted accordingly.	<p>Region 7 agrees that Grace Hill's financial management system did not meet federal requirements as detailed in chapters 3 and 4 of the audit report.</p> <p>In response to the draft and final reports, Grace Hill submitted a sizeable amount of additional supporting documentation to Region 7. Regional staff analyzed the supplemental documents, and were able to support, in part, Grace Hill's July 14, 2014, request for deviation from various procurement regulations.</p> <p>On November 23, 2015, a request to deviate from the procurement regulations in 40 CFR Part 30 was approved by EPA's National Policy, Training and Compliance Division. Therefore, the amount of funds to be recovered from Grace Hill due to deficient financial practices and management of this award will be reduced from the amount cited in the audit report. A repayment request will be issued to Grace Hill upon OIG concurrence of Region 7's Final Determination Letter.</p>	2 <sup>nd</sup> quarter FY 2016
2.	<p>Verify, prior to any future EPA award, that the recipient has adequate controls to ensure that:</p> <ul style="list-style-type: none"> <li>a) Procurement practices comply with federal regulation and the company's own procedures.</li> <li>b) Contract personnel have adequate federal procurement knowledge.</li> <li>c) Contract and bid information are accurate and complete.</li> <li>d) Unallowable costs are properly segregated and</li> </ul>	<p>Region 7 agrees with this recommendation.</p> <p>Following the projects' period of performance, Grace Hill hired a consultant to conduct a comprehensive assessment of its financial procedures. As a result of the consultant's findings and a review of the draft audit report, Grace Hill completed a revision of its Accounting and Financial Policies and Procedures Manual. Grace Hill also restructured and strengthened the oversight of contract management by its Chief Financial Officer, President, and Board of Directors.</p>	2 <sup>nd</sup> quarter FY 2016

	<p>financial management data are properly supported.</p> <p>e) Labor charges comply with federal requirements.</p> <p>f) Cash draws meet immediate cash needs and documentation requirements.</p>	<p>Region 7 will enter the audit report and details of the recommendations into the EPA Grantee Compliance and Recipient Activity database. Inclusion in the database ensures that EPA Project Officers and awarding Grant Specialists will be required to validate that Grace Hill has adequate internal controls in place to address the noted deficiencies, prior to any future award.</p>	
3.	<p>Verify that the recipient reported the number of jobs created and retained in accordance with the requirements of Recovery Act Section 1512 and the guidance issued by OMB.</p>	<p>Region 7 agrees that Grace Hill was unable to provide clear supporting documentation for the number of jobs it reported as created under the Recovery Act Section 1512.</p> <p>Grace Hill did report jobs created by project each quarter in federalreporting.gov. Though Grace Hill did not report this information as required by OMB guidance, EPA was able to monitor and track jobs reported, and did not take exception to the reporting methodology used by Grace Hill at the time.</p> <p>As these projects were completed over four years ago, re-creation and validation of this data using a different methodology would be difficult and of negligible value. No further action is warranted.</p>	1 <sup>st</sup> quarter FY 2015
4.	<p>Verify that vehicles reported as retrofitted under the CA were complete and retrofitted in accordance with the workplan requirements.</p>	<p>Region 7 agrees that difficulties were encountered in verifying that vehicles reported as retrofitted were complete and retrofitted in accordance with the workplan requirements.</p> <p>Subsequent to the audit, Grace Hill provided EPA with a Fleet List Verification for each of the Project Fleet Description Spreadsheets. The Fleet List Verifications were detailed and supported by vendor invoices. The Fleet List Verifications confirmed the number of units worked, as well as the technologies installed and the invoiced costs paid.</p>	1 <sup>st</sup> quarter FY 2015

		Region 7 did conduct a thorough review of the Fleet List Verifications against the vendor invoices for the projects completed under the grant. In addition, Region 7 did conduct an on-sight verification visit to Humboldt to ensure that engines were properly replaced. As a result, Region 7 is satisfied that all retrofits, repowers and replacements were accomplished, and no further action is necessary.	
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#### Contact Information

If you have any questions regarding this response, please contact Kathy Finazzo, Region 7 Audit Follow-up Coordinator at (913) 551-7833.

cc: Ms. Lela Wong, Office of Inspector General



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 7  
11201 Renner Boulevard  
Lenexa, Kansas 66219

MAR 22 2016

CERTIFIED MAIL  
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Grace Hill Settlement House  
National Clean Diesel Emissions Reduction Grants  
Cooperative Agreement No. 2A97706701  
Audit Report Number: 13-R-0367

Roderick Jones  
President and CEO  
Grace Hill Settlement House  
2600 Hadley Street  
St. Louis, Missouri 63106

Dear Dr. Jones:

We have reviewed the audit report issued by the EPA Office of Inspector General (OIG), on August 30, 2013, titled: *Examination of Costs Claimed Under American Recovery and Reinvestment Act Cooperative Agreement 2A-97706701 Awarded to Grace Hill Settlement House, St. Louis, Missouri.* This letter is EPA's decision on the findings reported. EPA has spent considerable time reviewing and evaluating the record and supplemental documentation provided. Overall, EPA believes that environmental benefits have been achieved from this project.

OIG recommended EPA disallow questioned costs of \$1,615,343 and recover \$1,423,028 of federal funds. OIG recommended that prior to any future EPA awards, that EPA verify Grace Hill has adequate controls over procurement, contract administration, cost allowability, labor charges, and cash draws. Further, OIG recommended EPA verify the number of reported jobs created and retained and the reported number of vehicles retrofitted.

During the time EPA was evaluating and preparing a response to the OIG recommendations, EPA received Grace Hill's request for deviation from various regulations found in 40 CFR Part 30 dated June 14, 2014. EPA evaluated and partially supported this request and on November 23, 2015, the EPA Office of Grants and Debarment, National Policy, Training and Compliance Division approved a partial deviation from the regulations in 40 CFR Part 30 regarding procurement standards. As a result, EPA has amended the amount to be recovered from Grace Hill to \$145,430, and this letter constitutes the Agency decision on cooperative agreement 2A-97706701.

**Financial Management Systems Did Not Meet Federal Standards**

EPA concurs with OIG's overarching assessment that Grace Hill's financial management system did not meet federal standards. OIG detailed that procurements did not meet competition or cost and price



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analysis requirements, nor did Grace Hill's contract administration comply with federal requirements. Since Grace Hill has been granted a deviation from the procurement standards in 40 CFR Part 30 for specific projects, only the following costs are questioned.

Contractual Costs Questioned	Amount Questioned	Federal Share	Federal Share Questioned
Ineligible - costs claimed in excess of contract amounts:			
First tugboat contract	\$9,677	75%	\$7,258
Second tugboat contract	\$19,272	75%	\$14,454
Initial crane contract	\$7,383	75%	\$5,537
Program Income not claimed:			
Proceeds from sale of delivery truck engines	\$3,656	75%	\$2,742
Ineligible - excess of purchase price over bid price:			
Delivery truck purchase	\$4,708	25%	\$1,177
Ineligible - costs incurred outside of contract period:			
Fire Department equipment	\$2,870	100%	\$2,870
Ineligible - voluntary match claimed as expense:			
Intern cost	\$12,381	100%	\$12,381
Sustained Contractual Costs Questioned			\$46,419

#### Humboldt Boat Service Company

Bryant T Tugboat - Grace Hill entered into a contract with Humboldt on January 12, 2010 for \$79,895 to repower a propulsion and auxiliary engine on the Bryant T Tugboat. The contract was later amended to \$90,011. Subsequently, Grace Hill claimed \$99,688 for the Bryant T project; however, there was no evidence submitted to justify the higher claimed amount or to show that the contract was properly amended to reflect the higher amount. As a result, \$9,677 is unallowable in accordance with 40 CFR Part 30.47.

Ken T Tugboat and Crane – Grace Hill entered into a contract with Humboldt for \$286,999 for the replacement of several engines on the Ken T Tugboat and the replacement of an engine on a crane. Once completed, the claimed amount for the activities associated with the Ken T tugboat were, in total, \$19,272 higher than its portioned contracted amount without a proper contract amendment or evidence to justify the higher amount. The invoiced costs for the crane included an amount of \$7,383 that was also not properly justified. As a result, these costs are unallowable.

#### Tocco Food Company

Tocco Food Company received funds to purchase three new cleaner engines for three delivery trucks. In accordance with the DERA program, the old engines were to be refurbished to meet current EPA standards. Instead, the vendor replacing the Tocco engines, Truck Centers, sold the engines to a firm

who sent them to a facility in Mexico for remanufacture. Grace Hill only claimed a recipient match of \$12,844 for this project and an excess amount of \$3,656 of program income was not claimed.

#### M&L Foods

Grace Hill solicited bids for a delivery truck for project beneficiary, M&L Foods. Grace Hill ended up paying a higher amount than the winning bid for the truck. Because there was no allowable justification for the change in price, the difference between the bid price and invoice price of \$4,708 is disallowed.

#### St. Louis Fire Department

Grace Hill contracted for equipment and installation for project beneficiary, St. Louis Fire Department. Once the invoices were presented for payment, there were several that were outside of the contracted period (dated before bid and contract). The amount outside of the contract period totaled \$2,870 and is an unallowable cost.

#### Intern Cost

One contract awarded to Truck Center included that Truck Center would hire and train interns as part of the project. The intern's pay was to be voluntary project match. However, Truck Center invoiced the cost of the interns to Grace Hill. Voluntary matches are not eligible for federal cost sharing and the \$12,381 is therefore questioned as ineligible.

All of the aforementioned sustained contractual questioned costs are to be remitted to EPA.

#### Costs Claimed Included Ineligible and Unsupported Costs

OIG reported Grace Hill did not have adequate controls to ensure that unallowable costs were segregated and that costs claimed in the accounting system were properly supported, as required by federal regulations. OIG examined 17 of the 60 other direct costs transactions, and found 9 were for ineligible costs and 2 transactions had no support. 40 CFR Part 30.21 requires that recipients financial management system have written procedures to determine the reasonableness, allocability and allowability of costs, and to ensure that costs claimed are supported by source documentation. EPA concurs with the auditors.

In response to the draft report, Grace Hill significantly revised its Accounting and Financial Policies and Procedures Manual. The revised manual became effective on March 18, 2013, and does address standards for financial management systems, along with documenting criteria for allowability of costs and segregating unallowable from allowable costs. Implementation of the new policies and procedures should help mitigate similar findings in the future.

OIG questioned \$2,859, as ineligible and unsupported costs claimed for the 11 transactions. EPA was able to accept one \$37 expense based on documentation provided by Grace Hill. Therefore, the amount questioned for other direct costs is adjusted to \$2,822, which is to be remitted to EPA.

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

OIG reported that labor charges did not comply with federal requirements. Grace Hill charged labor costs to the cooperative agreement based on budget percentages and not based on actual activities performed. In addition, the employees' timesheets tracked hours by funding source and not by cooperative agreement. 2 CFR Part 230, Appendix B, Section 8, Item 8, defines the parameters for Compensation for Personal Services. This regulation states that under federal awards, distribution of salary and wages to awards must be supported by personnel activity reports, or timesheets that accurately reflect the time spent on the award being charged. Budget estimates do not qualify as support for charges to awards. EPA concurs with the finding.

However, for this cooperative agreement there was a short period of time where the deputy program manager's personnel and fringe benefit costs were not allocated between programs. EPA will accept the personnel and fringe benefit costs incurred for this period. Regarding all other personnel and fringe benefit costs, based on Grace Hill's non-compliance with federal timekeeping requirements, EPA concurs with OIG, and disallows as unsupported \$55,205 of personnel and \$13,330 of associated fringe benefits claimed against the cooperative agreement. These amounts are to be remitted to EPA.

### **Indirect Costs Claimed in Excess of the Approved Budget**

OIG reported Grace Hill claimed \$27,654 more indirect costs than was allowed by the approved cooperative agreement budget. 40 CFR Part 30.25 states the recipient is required to obtain prior approval from EPA when shifting costs between the budgeted indirect costs and direct costs. Grace Hill did not request to move funds from budgeted indirect costs to direct costs. Therefore, EPA concurs with OIG and questions the indirect costs claimed in excess of the \$63,383 amount budgeted in the cooperative agreement. As Grace Hill claimed \$91,037 of indirect costs, the excess amount of \$27,654 is deemed ineligible and must be remitted to EPA.

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

OIG reported that Grace Hill's cash draws did not comply with federal cash management requirements. OIG reviewed 8 cash draws and found that Grace Hill could not always adequately document its draw calculations, nor support the need for the cash draw amounts, as required by 40 CFR Parts 30.21 or 30.22.

40 CFR Part 30.21(b)(2) requires recipients maintain records that adequately identify the course and application of funds for federally sponsored activities. 40 CFR Part 30.22(b) states cash advances are limited to the minimum actual amounts immediately needed to carry out the purpose of the approved project. Further, recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by recipients. EPA concurs with the finding.

In response to the report, Grace Hill revised its Accounting and Financial Policies and Procedures Manual. The revised manual became effective on March 18, 2013, and does document steps to be taken in performing cash draws. Following these steps, along with the strengthening of its management oversight, professional staff and overall control environment should help Grace Hill prevent similar findings in the future.

## **Compliance with Recovery Act Requirements**

OIG reported that Grace Hill was unable to provide supporting documentation for the number of jobs it reported as created and retained under Recovery Act section 1512. The Recovery Act required each recipient that received Recovery Act funds from a federal agency to submit a quarterly report with an estimate of the number of jobs created and the number of jobs retained by the project. The Office of Management and Budget issued guidance providing recipients with a method for estimating jobs created or retained and expressing the hours as “full-time equivalents”.

EPA agrees that Grace Hill was unable to provide clear supporting documentation for the number of jobs it reported as created under the Recovery Act section 1512. However, Grace Hill did report jobs created by project each quarter in federalreporting.gov. Though Grace Hill did not report this information as required by OMB guidance, EPA was able to monitor and track jobs reported, and EPA did not take exception to the reporting methodology used by Grace Hill at the time. As these projects were completed over four years ago, re-creation and validation of this data using a different methodology would be difficult and of negligible value, therefore no further action is warranted.

## **Meeting the Objectives of the Cooperative Agreement**

OIG was unable to provide an opinion as to whether Grace Hill met the objectives of the cooperative agreement due to: the lack of verifiable details in Grace Hill’s final progress report; not all vehicles were made available during the OIG’s site visit; and Grace Hill was inconsistent in documenting work completion verifications. EPA agrees that difficulties were encountered in verifying that vehicles reported as retrofitted were complete and retrofitted in accordance with the work plan requirements.

However, subsequent to the audit, Grace Hill provided EPA with a Fleet List Verification for each of the Project Fleet Description Spreadsheets. The Fleet List Verifications were detailed and supported by vendor invoices. The Fleet List Verifications confirmed the number of units worked, as well as the technologies installed and the invoiced costs paid.

EPA did conduct a thorough review of the Fleet List Verifications against the vendor invoices for the projects completed under the cooperative agreement. In addition, EPA did conduct an on-site verification visit to one sub grantee to ensure certain engines were properly replaced. As a result, EPA is satisfied that all retrofits, repowers and replacements were accomplished, and no further action is necessary.

## **Remittance**

The regulations at 40 CFR Part 30.62, Enforcement, state that if a recipient materially fails to comply with the terms and conditions of an award, EPA may, in addition to imposing special conditions, take one or more of the following actions:

- Temporarily withhold cash payments pending correction of the deficiency by the recipient or more severe enforcement action,
- Disallow all or part of the cost of the activity or action not in compliance,
- Wholly or partly suspend or terminate the current award,
- Withhold further awards for the project or program,
- Take other remedies that may be legally available.

In accordance with 40 CFR Part 30.62, EPA is disallowing part of the costs of activities not in compliance as described in detail above. The disallowed costs due to EPA attributable to cooperative agreement 2A97706701 is \$145,430. Please indicate EPA assistance agreement 2A97706701 on your remittance. Interest will be charged on money due the Agency beginning 30 days from the date of this decision unless full payment is made. The interest rate charged will be the rate established by the Secretary of Treasury Fiscal Requirements Manual 6-8020.20. The current interest rate is 1% percent per annum.

In summary, a total amount of \$145,430 must be repaid to the:

U. S. EPA, Las Vegas Finance Center  
P.O. Box 979087  
St. Louis, MO 63197-9000

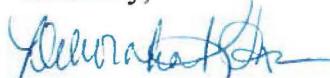
Additionally, due to the issues of noncompliance described in this letter, EPA will include a special condition on any future EPA assistance agreements awarded to Grace Hill placing Grace Hill on the reimbursement method of payment until Grace Hill has demonstrated to the appropriate grants management official at the time of the award, adequate assurance of compliance with all aspects of fiscal management.

#### Appeal Language

This decision constitutes the **Final Agency Decision**. The Regional Administrator has designated Ms. Karina Borromeo as the Disputes Decision Official (DDO) in accordance with 40 CFR Part 31.71. As described in 40 CFR Part 31.72 an affected entity may dispute an Agency Decision by electronically submitting an Appeal to the DDO identified above. The DDO must receive the Appeal no later than 30 calendar days from the date the Agency Decision is electronically sent to Grace Hill. Grace Hill must submit the Appeal electronically via email to the DDO, Ms. Karina Borromeo, at [Borromeo.Karina@epa.gov](mailto:Borromeo.Karina@epa.gov), with a copy to Ms. Deboraha K. Titus, Action Official, at [Titus.Debbie@epa.gov](mailto:Titus.Debbie@epa.gov). The Appeal must include a copy of the disputed Agency Decision; a detailed statement of the specific legal and factual grounds for the Appeal, including copies of any supporting documents; the specific remedy or relief you seek under the Appeal; and the name and contact information, including email address, of your designated point of contact for the Appeal.

If you have any questions concerning this matter, please contact me at (913) 551-7712.

Sincerely,



Deboraha K. Titus  
Grants Management Officer

cc:  
Aundrea Young, Chief Financial Officer  
Laura Kozak, Chief Administrative Officer