

Statement of

Rickey R. Hass

Deputy Inspector General for Audits and Inspections

Office of Inspector General

U.S. Department of Energy

Before the

Subcommittee on Energy and the Environment

Committee on Science, Space, and Technology

U.S. House of Representatives

FOR RELEASE ON DELIVERY
9:30 AM
July 26, 2012

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify on the work of the Office of Inspector General concerning the Department of Energy's Vehicle Technologies Program (Program). As requested by the Subcommittee, my testimony today will focus on our May 2012 reports on Clean Cities (OAS-RA-12-12) and Transportation Electrification (OAS-RA-12-11) grants made under the Program.

The Clean Cities Program, in place since 1993, was designed to help volunteer coalitions partner with public and private entities to promote alternative and renewable fuels, fuel economy measures and new technologies. With the enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Department awarded grants to Clean Cities coalitions, and other entities that partnered with coalitions, to construct or upgrade alternative-fuel stations and to purchase alternative-fuel commercial vehicles. In addition to managing projects directly, Clean Cities grant recipients awarded contracts for actual construction/equipment purchases. Additionally, the Department established the Transportation Electrification Program to demonstrate and evaluate the deployment of plug-in hybrid vehicles and associated infrastructure needs. Awards under this program were made to both for-profit and non-profit entities.

Through the Recovery Act, the Department awarded grants of nearly \$300 million for Clean Cities projects and about \$400 million for Transportation Electrification efforts. The Department required fund recipients under both Programs to comply with Federal regulations governing financial assistance awards. As such, they were required, among other things, to provide a

significant percentage (up to 50 percent) of a project's funding (cost-share), use competitive procurement practices to the maximum extent practical, adequately document expenditures, and ensure that periodic audits were completed. As of July 2012, Clean Cities grant recipients had expended about \$202 million, and Transportation Electrification Program grantees had spent about \$204 million.

Office of Inspector General Oversight

Because of their significance, we examined various aspects of the Department's management of these programs. In the case of Clean Cities, we evaluated whether the Department had effectively managed the initiative. For Transportation Electrification grants, we sought to determine whether the Department obtained and reviewed financial and compliance audits and cost incurred reports of for-profit recipients. We identified needed improvements in financial management for both programs.

Clean Cities

While the Department had followed established procedures for the solicitation, merit review and selection of the Clean Cities projects, we found that it had not always effectively managed the use of Recovery Act funding and other post-award aspects of those grants. Specifically, the Department had authorized reimbursements and cost-share contributions that either did not relate to the purpose of the grant or were not properly supported. We also identified concerns with potential conflicts of interest and questionable procurement practices. As a result, we questioned

approximately \$5 million in direct payments to recipients and nearly \$2 million in claimed cost-share. Inadequate policies and procedures and ineffective oversight by the Department contributed to the issues we identified.

Questionable Clean Cities Reimbursements and Cost-Share Contributions

The Department approved questionable reimbursement claims and cost-share contributions for three of the seven entities we reviewed. In one case, the Department reimbursed a coalition member's company for about \$1.5 million in unsubstantiated costs and also approved \$615,000 in unsubstantiated cost-share contributions. In this particular case, we discovered that the Department approved these charges even though they included equipment costs and lease payments not related or allocable to the grant. The coalition member's involvement in this particular project also represented an apparent conflict of interest in that the individual leased the fueling stations from a family member's company. The coalition member also served as the vice-president of the family member's company — a relationship that we discovered by reviewing documentation that had previously been collected by the Department. Because of these issues, we questioned the direct costs and cost-share claimed.

Department officials informed us they were pursuing questionable payments to, and cost-share contributions from, the recipient in question at the time of our audit. Subsequently, the contracting officer disallowed the entire cost-share and reduced total project costs by about \$2 million while requiring that the project adhere to the original scope.

Separately, our review of reimbursements and cost-share claimed by two other Clean Cities grant recipients disclosed approximately \$400,000 in costs that had either been incurred prior to the grant award date or were unsupported.

Clean Cities Coalition Recipient Procurements

Of the seven grant recipients reviewed, we found three had procured goods and services totaling nearly \$20 million without documenting the results of award decisions and/or taking steps necessary to identify potential conflicts of interest. One recipient awarded contracts for the construction of 10 alternative-fuel stations and the purchase of alternative-fuel vehicles without documenting the results of its award decisions, including its cost/price analyses, despite Federal regulations and the Department's detailed instructions. Coalition officials informed us that they "did not issue any bid requests" or "solicit bids" for any of the contracts awarded. Instead, they relied on proposals prepared by interested parties that had been made aware of funding through word-of-mouth and an email sent to a network of associates. In our view, the lack of a public solicitation for bids and the failure to complete required cost/price analyses raises questions about the reasonableness of costs. We noted that these very steps had been taken by other recipients of funds.

Our review revealed that two other recipients had awarded contracts even though potential conflicts of interest existed. In one case, a recipient awarded nearly \$6.5 million to companies either owned by or employing coalition board members. While the recipient had solicited bids, the entities associated with coalition board members received over 40 percent of available

funding. These awards were of particular concern because the selecting officials were coalition board members and awarded a number of contracts to companies affiliated with fellow board members.

Department officials told us that under the terms of the Clean Cities grants, awardees were solely responsible for contracts and were not required to compete awards. They also asserted that they did not believe conflicts of interest existed. Management's position was, in our opinion, inconsistent with Federal regulations governing competitive procurements by financial assistance award recipients. As such, we remain concerned because coalitions are comprised of geographically-based networks of individuals and organizations with mutual interests. This very structure makes it important that concerns regarding conflicts of interest, and free and open competition, be treated as a priority in an effort to promote the Recovery Act's accountability and transparency goals.

Clean Cities Grant Administration

Our review of award files found no evidence that the Department had reviewed the grants we tested for potential conflicts of interest. In fact, prior to our audit, Department officials were unaware of the previously cited example in which a coalition board member's company had been awarded a contract and was claiming lease payments to a family-owned company. This despite information being in the award files that, in our view, should have led the Department to question the relationship.

The Department also had not thoroughly reviewed recipient requests to ensure all costs were reasonable and well documented. As previously mentioned, we found that the Department had approved reimbursement requests and cost-share claims that were unrelated to the purpose of the grant, and in some instances, lacked sufficient documentation. Finally, we found that the Department's monitoring of recipients focused on technical aspects of the projects and did not include reviews of compliance with Federal procurement requirements.

Management officials told us that grant recipients were primarily responsible for ensuring compliance with Federal procurement and conflict of interest rules. Further, management indicated that the Department relied on the recipients' vigilance to ensure that Federal funds are efficiently managed. Ensuring integrity and credibility of the program, in our view however, required government oversight to ensure the reasonableness of costs and to mitigate actual and potential conflicts of interest.

Transportation Electrification

We found that the Department could improve its financial management of the Transportation Electrification Program. Our review disclosed that the Department had not obtained and reviewed required financial and compliance audits and cost reports for the Program's six for-profit recipients. Audits and cost reports determine the financial condition of the recipients; the reasonableness of costs expended under the awards; the adequacy of internal controls; and, compliance with laws and regulations.

Department officials acknowledged that they were unaware of whether recipients had received required independent audits or submitted cost reports. They also told us that they had not established a process to track, collect, review and follow-up on the receipt of required audits. Officials explained that, in the past, the guidance on audit requirements related to for-profit recipients was not clear. The findings in our prior report, *Solar Technology Pathway Partnerships Cooperative Agreements* (OAS-M-11-02, March 2011), were consistent with the explanation provided by the officials in that we found that there was a lack of guidance on reporting requirements related to for-profit recipients and recommended that the Department revise its guidance. The Department issued its final version of the updated guidance on audits of for-profit recipients and subrecipients in February 2011, requiring that entities expending more than \$500,000 per year obtain an audit for that year by an independent auditor.

Department of Energy Actions

The Department took action to address issues identified in our reports. Specifically, the Department has resolved approximately \$2.5 million of the costs questioned in our Clean Cities report. Additionally, the officials acted to obtain required audit and financial reports from the for-profit recipients of Transportation Electrification grants. However, management disagreed with many of our findings and recommendations with regard to the Clean Cities Program. Generally, the Department did not agree with our conclusion that grantees were required to compete procurements. Officials also did not believe that certain activities we identified represented conflicts of interest. Consistent with its position on these matters, the Department

concluded that the costs we identified that involved potential conflicts of interest, non-competitive procurements and unsupported costs were allowable.

Mr. Chairman, this concludes my statement and I would be pleased to answer any questions that the Subcommittee may have.