

**Audit of Agreement DG001  
with Yacht Starship Dining Cruises, LLC**

**Division of Air Resource Management**

**Report: A-1920DEP-002**

**Office of Inspector General**

**Internal Audit Section**

**Florida Department of Environmental Protection**

**March 25, 2020**

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Division of Air Resource Management



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The Department of Environmental Protection (Department), Office of Inspector General (OIG) conducted an audit of Agreement DG001 (Agreement) between the Department's Division of Air Resource Management (Division) and Yacht Starship Dining Cruises, LLC (Grantee)<sup>1</sup> for partial cost reimbursement for diesel engine replacements. This audit was initiated as a result of the Fiscal Year (FY) 2019-2020 Annual Audit Plan.

## Scope and Objectives

The scope of the audit included activities under the Agreement during the period of January 4, 2019, through June 30, 2019. The objectives were to:

- determine whether the approved reimbursement was supported by deliverables as outlined in the Grant Work Plan
- evaluate management oversight and compliance with the Agreement and Diesel Emissions Reduction Act (DERA) State Clean Diesel Grant Program

## Methodology

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors, and under the authority of Section 20.055, Florida Statutes (F.S.). Our procedures included review of the Agreement and DERA requirements, as well as support documentation associated with payments and deliverables. We also interviewed and obtained information from Division and Grantee staff.

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<sup>1</sup> Under Federal Award Grant Number 00D63117, the Department is named as the grant recipient. Yacht Starship Dining Cruises, LLC is a subrecipient of this award. However, for consistency with language used in the Agreement, Yacht Starship Dining Cruises, LLC is referenced in this report as the Grantee.

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## Background

The DERA Act of 2005 established voluntary national and state-level grant programs for diesel emissions reductions projects and programs. Federal funding for DERA was reauthorized in 2010 and in subsequent years. For the budget period of October 1, 2017, through September 30, 2020, the U.S. Environmental Protection Agency (EPA) awarded the Department \$423,030 in funding under Grant Number 00D63117 (Grant) for the State Clean Diesel Grant Program (Program). Paragraph L.6. of the Grant states, *EPA funds and state voluntary matching funds can cover up to 40% of the cost (labor and equipment) of an eligible diesel or alternative fuel engine replacement. States and/or eligible third parties are responsible for the mandatory cost-share of at least 60% of the cost of an eligible engine replacement.* Under the DERA Grant, the Department is required to submit quarterly reports which address progress toward work plan goals as well as a final report. The final report is due within 90 days of the end of the Grant period. The Division entered into the Agreement with the Grantee on January 4, 2019. The Agreement provided for the Department to reimburse the Grantee 40% of the cost to replace three eligible marine diesel engines with engines which meet DERA diesel emissions standards. The budgeted costs for these engines was as follows:

<b>Marine Diesel Engine Replacement</b>	<b>Total Cost Including Labor</b>	<b>Department Cost Share (40%)</b>
1	\$140,315.00	\$56,126.00
2	\$140,315.00	\$56,126.00
3	\$71,870.00	\$28,748.00
<b>TOTAL</b>	<b>\$352,500.00</b>	<b>\$141,000.00</b>

The Grantee was reimbursed \$139,381.69 for the Department's share of reported costs.

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## Results

The Grant Work Plan for installation of the three engines included three tasks. Each task included an associated worksheet to be completed by the Grantee. We reviewed the requirements, worksheets, and documented deliverables for each task.

### Task 1: Certify Eligibility of Marine Vessel Diesel Engine to be Replaced

Task 1 required that the Grantee certify the eligibility of the engines being replaced and required the following:

- new engines would serve the same function as the engines being replaced and meet current EPA emissions eligibility requirements
- new engines were of the same type or horsepower as the engines being replaced
- engines being replaced would be disposed as defined in the Program Information Guide through the deliverables listed in Task 3
- Grantee must be able to prove a minimum of 1,000 annual operating hours for each marine diesel being replaced. Task 1 stated that the *Department does not require such documentation to be submitted but expects the Grantee to keep the documentation for the possibility of an audit conducted by EPA*
- engine types, serial numbers, model years, horsepower, annual hours of operation, and remaining useful life

Worksheet 1 states, *The Grantee must certify the eligibility of the engine(s) that will be replaced by providing proof of the following information as described in the DERA Grant Program Guide. Information proving eligibility will be submitted by completing this worksheet.* However, the worksheet did not include a certification statement nor signature requirement.

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For the purpose of the final report required under the DERA Grant, the Department is required to include a narrative summary of the project or activity, project results, including final emission benefits. Calculation of these benefits should be based on actual usage. If this information is not available, the final report will include a detailed explanation of how the values are derived, as well as any assumptions or default values used. While support for the annual operating hours of each engine was not required under Task 1, we requested this documentation from the Grantee. The Grantee provided detailed vessel logs for one month and a table which reported over 1,000 total hours annually for each engine.

For the DERA Grant final report, the Department must provide evidence that engine replacement activity would not have occurred through normal attrition or fleet turnover within three years of the project start date. In Worksheet 1, the Grantee estimated the remaining useful life for two of the engines to be 10 years and for the remaining engine to be five years. Justification for this estimate was not required under the Agreement. Per the State Clean Diesel Grant Program Information Guide, normal attrition is typically defined by the vehicle or fleet owner's budget plan, operating plan, standard procedures, or retirement schedule. We requested support for estimated remaining engine useful life. In response, the Grantee provided a letter confirming that none of the three engines were budgeted to be replaced within the next three years.

#### Task 2: Purchase Marine Vessel Diesel Engine(s)

Task 2 required that the Grantee purchase three replacement engines that met DERA requirements and the completion of Worksheet 2. Worksheet 2 required that the Grantee *insert copies of the receipts of purchase for each new marine diesel engine in this document or attach*

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*copies with the submittal of this worksheet.* Worksheet 2 was submitted with a written description of the engine type, manufacturer and model and projected usage. However, the Division's Grant Manager did not obtain receipts of the purchases. The Grantee's Grant Manager provided a list of transactions by account supporting costs under the Agreement. The listing detailed costs for the three engines purchased and other costs associated with removal of the existing engines and installation of the new engines, including Grantee labor. Based on our inquiry, the Grantee's Grant Manager provided a preliminary invoice document and canceled checks to a vendor for the cost of the engines. We obtained the final invoice document from the vendor who confirmed payment of the reported cost for the three engines.

The serial number for each of the purchased replacement engines was required as part of Worksheet 2. The submitted worksheet did not include engine serial numbers. Worksheet 2 states, *If the Grantee is unable to provide the marine diesel engine serial number at the time of purchase, the Grantee may submit Worksheet 2 without the serial number. The grantee shall submit an updated Worksheet 2 when the marine diesel engine serial number is available.* The Division's Grant Manager did not obtain an updated Worksheet 2 with serial numbers for the three engines. However, the serial numbers for the three engines were included on the final paid invoice we obtained from the vendor.

### Task 3: Certify Disposal of Replaced Marine Vessel Diesel Engine(s)

Task 3 required that the Grantee complete the disposal requirement within 30 days of the eligible unit being replaced, completion of Worksheet 3, and a signed certificate of destruction. The 30-day time period to complete the disposal requirement begins when the new marine diesel engine is delivered to the project location. Purchase receipts or other documentation which

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would indicate the engines' replacement date were not obtained. However, Worksheet 3 was completed for each of the replaced engines and included certification dated June 6, 2019, that each of the old engines had been permanently disabled within 30 days of replacement by the Grantee.

The disposal process for Task 3 required that a three-inch by three-inch hole be cut in the engine block as well as digital photos of the engine tag and destroyed engine block. The Division's Grant Manager conducted a site visit and verified the required disposal of the engines being replaced.

#### Agreement Oversight

According to the Grant Work Plan, the tasks were required to be completed and payment request received by June 1, 2019. The Payment Request Summary Form, which included the Grantee Checklist, Grant Expenditure Summary Section, and Grantee's Certification of Payment Request was received June 17, 2019. Reported costs for the three engines totaled \$348,454.23. The Grantee was reimbursed \$139,381.69 on June 21, 2019, for the Department's share of reported costs.

According to Section 216.3475, F.S., if funding is awarded on a non-competitive basis, the Division is required to maintain records supporting a cost analysis, which includes a detailed budget submitted by the entity awarded funding. The Grantee provided an estimated budget for the project. The Division's Grant Manager completed the Budget Cost Analysis Form (DEP 55-229) allocating the budgeted costs under equipment to the three engines. Per the DEP 55-229 Cost Analysis Instructions, *Documentation must be maintained in the Contract/Grant Manager's files to support the conclusions reached as shown on this form.* The costs were documented on

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the Budget Cost Analysis Form to be reasonable, allowable, and necessary. However, there was no documentation available to support conclusions reached.

Under Paragraph 4 of the Special Terms and Conditions of the Agreement, reimbursement for costs or availability for costs to meet matching requirements were limited to the budget category for equipment. However, the Budget Detail included in the Grant Work Plan included cost per engine with the inclusion of labor. The Grantee's Grant Manager also provided a listing of costs associated with Grantee labor, which accounted for \$27,507.97 of the total cost.

Tasks 1 and 2 of the Agreement Grant Work Plan included Performance Standards which stated, *The Department's Grant Manager will review the documentation to verify that the deliverables are provided as described above. Upon review and written acceptance by the Department's Grant Manager of all deliverables under this task, the Grantee may proceed with the remaining tasks.* There was no Performance Standard listed under Task 3.

The Grant Work Plan stated, *With the approval of all three Tasks, the Grantee shall submit to the Department's Grant Manager the Payment Request Summary Form.* The Division's Grant Manager provided e-mail correspondence documenting that the Grantee's Grant Manager submitted the required worksheets.

## **Conclusions**

Based on our audit, the Grantee documented the replacement and dismantling of three marine diesel engines. However, there were noted weaknesses in documenting support for emissions benefits, remaining useful life, worksheet completion and certification, costs, and performance under the Agreement.

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## **Findings and Recommendations**

### **Finding 1: Eligibility Certification**

Task 1 was titled *Certify Eligibility of Marine Vessel Diesel Engine to be Replaced*. As required under Task 1, Worksheet 1 states, *The Grantee must certify the eligibility of the engine(s) that will be replaced by providing proof of the following information as described in the DERA Grant Program Guide. Information proving eligibility will be submitted by completing this worksheet.* However, Worksheet 1 did not include a certification statement nor signature requirement from the Grantee. In addition, there was no other form of documentation available in which the Grantee certified the eligibility of the engines being replaced. As a result, it is unclear where the information in Worksheet 1 originated. In addition, the Division lacks documented assurance from the Grantee that the engines being replaced were eligible under the Program.

### **Recommendation**

Going forward, we recommend the Division ensure that agreements contain supporting forms and worksheets which are consistent with task requirements. In addition, the Division should ensure that certifications required under an agreement are obtained from the recipient prior to approving payment.

### **Finding 2: Support for the Final Report to EPA Under the DERA Grant**

The DERA Grant requires the Department to submit quarterly progress reports and a detailed final report to EPA within 90 days of the DERA Grant end date. In the final report, the Department is required to include a narrative summary of the project or activity, project results including final emissions benefit calculations, and the successes and lessons learned for the entire project. Paragraph C. *Final Report* of DERA Grant states, *To the extent possible, final*

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*emission benefit calculations should be based on the actual number and type of technologies, vehicles, equipment and engines implemented under the award and actual vehicle miles traveled, idling and/or operating hours, and fuel use. If actual vehicle miles traveled, idling and/or operating hours, and fuel use are not available, the final report will include a detailed explanation of how these values are derived, as well as any assumptions or default values used, for the purposes of emissions benefit calculation.*

In Worksheet 1, the Grantee reported the annual operation for the three engines to be 1,100, 1,100, and 1,500 hours respectively. While Task 1 required that the Grantee be able to prove a minimum of 1,000 annual operating hours for each marine diesel engine being replaced, submission of this documentation was not required. Without this documentation, the Department lacks support for final emissions benefit calculations included in the final report due to EPA. We requested support for annual operating hours of the engines being replaced. In response, the Grantee provided detailed vessel logs for a sampled month and a supporting summary which reported operating hours annually for each engine as follows:

<b>Vessel Engines</b>	<b>Port Main</b>	<b>Starboard Main</b>	<b>Starboard Generator</b>
Annualized Hour Totals	1,212	1,236	1,812

For projects involving vehicle, engine, or equipment replacement, Paragraph C. *Final Report* of DERA Grant requires that the Department provide, *evidence that the replacement activity is an “early replacement,” and would not have occurred through normal attrition/fleet turnover (i.e. without the financial assistance provided by EPA) within three years of the project period start date. Supporting evidence can include verification that the vehicles or equipment being replaced have useful life left and fleet characterization showing fleet age ranges and*

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*average turnover rates per the vehicle or fleet owner's budget plan, operating plan, standard procedures, or retirement schedule.* In Worksheet 1, the Grantee estimated the remaining useful life for two of the engines to be 10 years and for the remaining engine to be five years.

Justification for this estimate was not required under the Agreement. Per the EPA State Clean Diesel Grant Program Information Guide, normal attrition is typically defined by the vehicle or fleet owner's budget plan, operating plan, standard procedures, or retirement schedule. In response to our request for support of the estimated remaining engine useful life, the Grantee provided a letter confirming that none of the three engines were budgeted to be replaced within the next three years.

Since the Agreement contained no requirement for supporting evidence that the replacement would not have occurred through normal attrition/fleet turnover within three years, the Department lacks this justification as support for the DERA Grant final report due to EPA.

### **Recommendation**

We recommend the Division obtain information necessary from the Grantee for the accurate completion of the final report to EPA. Going forward, we recommend the Division ensure that agreements contain requirements for emission benefit calculation support, such as actual number and type of technologies, vehicles, equipment and engines implemented under the award and actual vehicle miles traveled, idling and/or operating hours, and fuel use. If this information is not available, the recipient should be required to provide a detailed explanation of how these values are derived, as well as any assumptions or default values used.

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In any agreement which involves vehicle, engine, or equipment replacement, we also recommend the Division include requirements for evidential support that the replacement would not have occurred through normal attrition/fleet turnover. Under the EPA State Clean Diesel Grant Program Information Guide, normal attrition could be supported by the vehicle or fleet owner's budget plan, operating plan, standard procedures, or retirement schedule.

**Finding 3: Cost Analysis**

For entities awarded funding on a noncompetitive basis, Section 216.3475, F.S. states, *each agency shall maintain records to support a cost analysis, which includes a detailed budget submitted by the person or entity awarded funding and the agency's documented review of individual cost elements from the submitted budget for allowability, reasonableness, and necessity.* Funding for the Project was awarded to the Grantee on a noncompetitive basis. The Grantee provided an estimated budget for the project. The Division's Grant Manager completed the Budget Cost Analysis Form (DEP 55-229) allocating the budgeted costs under equipment to the three engines.

Per the DEP 55-229 Cost Analysis Instructions, *Documentation must be maintained in the Contract/Grant Manager's files to support the conclusions reached as shown on this form.* The costs were documented to be reasonable, allowable, and necessary. However, there was no documentation available to support conclusions reached on the Department Budget Cost Analysis Form. In addition, the form was not signed by the Division's Grant Manager as required.

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**Recommendation:**

On future Agreements awarded on a noncompetitive basis, we recommend the Division ensure Grant Managers sign and maintain documentation to support the completion of a cost analysis as required under Section 216.3475, F.S.

**Finding 4: Budgeted Costs and Support for Reimbursement**

According to Paragraph 9 of the Standard Terms and Conditions Applicable to Grant Agreements, if cost reimbursement or match is authorized in the Special Terms and Conditions of the Agreement, supporting documentation must be provided to substantiate cost reimbursement or match in accordance with the budget category. For salary and wages, this includes a list of personnel involved, position classification, direct salary rates, and hours spent on the project in accordance with the Grant Work Plan. For equipment purchases, this includes copies of invoices or receipts to document purchases, and a properly completed property reporting form. For miscellaneous or other expenses, this includes copies of receipts or invoices.

Under Paragraph 4 of the Special Terms and Conditions of the Agreement, reimbursement for costs or availability for costs to meet matching requirements were limited to the budget category for equipment. However, the Budget Detail included in the Grant Work Plan included cost per engine with the inclusion of labor.

Under Task 2, the Grantee was required to submit detailed information for the replacement engines using Worksheet 2. Worksheet 2 required that the Grantee *insert copies of the receipts of purchase for each new marine diesel engine in this document or attach copies with the submittal of this worksheet*. Worksheet 2, as submitted, included a written description of

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the engine type, manufacturer and model, and projected usage. The Grantee's Grant Manager also provided a list of transactions by account supporting costs under the Agreement. The listing detailed costs for the three engines purchased and other expenses associated with removal of the existing engines and installation of the new engines, including Grantee labor. However, the Division's Grant Manager did not obtain support for costs or receipts for purchases as required.

Based on our inquiry, the Grantee's Grant Manager provided a preliminary invoice document and canceled checks to a vendor for the cost of the engines. The Grantee's Grant Manager also provided a listing of personnel costs associated with Grantee labor, which accounted for \$27,507.97 of the total project cost. We obtained the final invoice and confirmation of payment for the engines from the vendor.

### **Recommendation**

Going forward, we recommend the Division ensure that budgeted costs under agreements reflect budget categories consistent with the anticipated costs. In addition, the Division should ensure that receipts and other required support for reported costs are obtained prior to approving payment.

### **Finding 5: Support for Replacement Engines**

The serial number for each of the replacement engines purchased was required as part of Task 2, Worksheet 2. Upon submission of the document, engine serial numbers were not included. Worksheet 2 states, *If the Grantee is unable to provide the marine diesel engine serial number at the time of purchase, the Grantee may submit Worksheet 2 without the serial number. The grantee shall submit an updated Worksheet 2 when the marine diesel engine serial number is available.* The Division's Grant Manager did not obtain an updated Worksheet 2. As a result,

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the Division lacked verifiable identification of the engines purchased. The serial numbers for the three engines purchased were included on the final paid invoice we obtained from the vendor.

### **Recommendation**

Going forward, for agreements which involve vehicle, engine, or equipment replacement, we recommend the Division ensure that verifiable identification of the items purchased is obtained prior to approving payment.

### **Finding 6: Performance Standards**

Tasks 1 and 2 of the Agreement Grant Work Plan included Performance Standards which stated, *The Department's Grant Manager will review the documentation to verify that the deliverables are provided as described above. Upon review and written acceptance by the Department's Grant Manager of all deliverables under this task, the Grantee may proceed with the remaining tasks.* A Performance Standard was not included under Task 3.

The Grant Work Plan also stated, *With the approval of all three Tasks, the Grantee shall submit to the Department's Grant Manager the Payment Request Summary Form.* According to the Project Timeline, the tasks were required to be completed and the Payment Request Summary Form submitted by June 1, 2019. The Division's Grant Manager provided e-mail correspondence documenting that the Grantee's Grant Manager submitted the required worksheets. The Payment Request Summary Form was received June 17, 2019. The Division's Grant Manager could not provide documented approval of the tasks which would have authorized the Grantee to proceed with subsequent tasks and submission of the Payment Request Summary Form.

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## Recommendation

Going forward, we recommend the Division work with Grant Managers to ensure deliverables required under Grant Work Plan tasks are submitted, reviewed, and approved as required prior to proceeding with activities under subsequent tasks and submission of payment requests. In addition, the Division should ensure that performance standards are included for each task under the Grant Work Plan.

*To promote accountability, integrity, and efficiency in state government, the OIG completes audits and reviews of agency programs, activities, and functions. Our audit was conducted under the authority of Section 20.055, F.S., and in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors, and Principles and Standards for Offices of Inspector General, published by the Association of Inspectors General. The audit was conducted by Jeff Taylor and Joy James and was supervised by Valerie J. Peacock.*

*Please address inquiries regarding this report to the OIG's Audit Director by telephone at (850) 245-3151. Copies of final reports may be viewed and downloaded via the internet at <https://floridadep.gov/oig/internal-audit/content/final-audit-reports>. Copies may also be obtained by telephone (850) 245-3151, by fax (850)245-2994, in person or by mail at Department of Environmental Protection, Office of Inspector General, 3900 Commonwealth Boulevard, Mail Station #41, Tallahassee, FL 32399.*

*Valerie J. Peacock,  
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## Memorandum

**To:** Valerie Peacock, Audit Director, Office of Inspector General

**From:** Jeffery F. Koerner, Director, Division of Air Resource Management

**Subject:** Audit Report A-1920DEP-002  
Agreement DG001 with Yacht Starship Dining Cruises, LLC

**Date:** March 25, 2020

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## Introduction

On February 20, 2020, the Division of Air Resource Management received preliminary Report A-1920DEP-002 from the Internal Audit Section of the Office of Inspector General, Florida Department of Environmental Protection. The report summarizes the audit and related findings of Grant Agreement DG001 with Yacht Starship Dining Cruises, LLC. Funds for the grant were provided from EPA's Diesel Emissions Reduction Act (DERA) funding. The Division of Air Resource Management (DARM) provides the following responses to the findings in the report.

### Finding 1: Eligibility Certification

Recommendation: Going forward, we recommend the Division ensure that agreements contain supporting forms and worksheets which are consistent with task requirements. In addition, the Division should ensure that certifications required under an agreement are obtained from the recipient prior to approving payment.

Response: For future projects, DARM will provide a statement for certifying the accuracy and project eligibility at the bottom of Worksheet 1 and require a signature from the Grantee.

### Finding 2: Support for the Final Report to EPA Under the DERA Grant

Recommendation: We recommend the Division obtain information necessary from the Grantee for the accurate completion of the final report to EPA. Going forward, we recommend the Division ensure that agreements contain requirements for emission benefit calculation support, such as actual number and type of technologies, vehicles, equipment and engines implemented under the award and actual vehicle miles traveled, idling and/or operating hours, and fuel use. If this information is not available, the recipient should be required to provide a detailed explanation of how these values are derived, as well as any assumptions or default values used.

In any agreement which involves vehicle, engine, or equipment replacement, we also recommend the Division include requirements for evidential support that the replacement would not have occurred through normal attrition/fleet turnover. Under the EPA State Clean Diesel Grant Program Information Guide, normal attrition could be supported by the vehicle or fleet owner's budget plan, operating plan, standard procedures, or retirement schedule.

Response: For future projects, DARM will require the Grantee to provide proof of the engine operating hours and that the replacement is being performed at least three years prior to the grantee's scheduled plans to replace the engine with appropriate documentation. The Grantee will also be required to verify with a signature that the unit replacement is occurring before normal attrition.

### **Finding 3: Cost Analysis**

Recommendation: On future Agreements awarded on a noncompetitive basis, we recommend the Division ensure Grant Managers sign and maintain documentation to support the completion of a cost analysis as required under Section 216.3475, F.S.

Response: For future projects, DARM will require the DARM Grant Manager to approve the completion of a cost analysis accompanied by evidence of the analysis in Worksheet 2 in the same manner as the approval of the worksheets.

### **Finding 4: Budgeted Costs and Support for Reimbursement**

Recommendation: Going forward, we recommend the Division ensure that budgeted costs under agreements reflect budget categories consistent with the anticipated costs. In addition, the Division should ensure that receipts and other required support for reported costs are obtained prior to approving payment.

Response: For future projects, DARM will require the Grantee to provide a schedule of values completed and submitted with Worksheet 1 in addition to a copy of the original receipt(s) provided by the distributor/manufacturer of the replaced unit in Worksheet 2.

### **Finding 5: Support for Replacement Engines**

Recommendation: Going forward, for agreements which involve vehicle, engine, or equipment replacement, we recommend the Division ensure that verifiable identification of the items purchased is obtained prior to approving payment.

Response: For future projects, DARM will require the Grantee to provide certified serial numbers of the new vehicles, engines, or equipment being replaced prior to approving the partial cost reimbursement payment.

### **Finding 6: Performance Standards**

Recommendation: Going forward, we recommend the Division work with Grant Managers to ensure deliverables required under Grant Work Plan tasks are submitted, reviewed, and approved as required prior to proceeding with activities under subsequent tasks and submission of payment requests. In addition, the Division should ensure that performance standards are included for each task under the Grant Work Plan.

Response: For future projects, DARM will include performance standards for all tasks (e.g., scrappage documentation for Task 3) and provide written approvals as stated in the work plan.