



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **EPA Does Not Always Receive Adjustment Vouchers from Contractors**

**Report No. 10-P-0075**

**March 8, 2010**

**Report Contributors:**

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**Abbreviations**

|      |  |
|------|--|
| CO   | Contracting Officers                         |
| DCAA | Defense Contract Audit Agency                |
| EPA  | U.S. Environmental Protection Agency         |
| FACO | Financial Administrative Contracting Officer |
| FAR  | Federal Acquisition Regulation               |
| FY   | Fiscal Year                                  |
| MATS | Management Audit Tracking System             |
| OAM  | Office of Acquisition Management             |
| OIG  | Office of Inspector General                  |
| PO   | Project Officer                              |



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Audit

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) is timely receiving adjustment vouchers and credits from contractors based on sustained Defense Contract Audit Agency (DCAA) audit results.

## Background

DCAA performs audits of final indirect cost rate proposals that impact EPA contracts. After negotiations with the contractor, EPA establishes final indirect cost rate agreements. Once the final indirect cost rate agreement is established, contractors are required to submit adjustment vouchers to EPA within 60 days of the agreement date. These vouchers adjust contractor billings for the differences between billed indirect costs and the indirect costs resulting from the application of the negotiated indirect costs rates for the period specified.

**For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.**

**To view the full report, click on the following link:**  
[www.epa.gov/oig/reports/2010/20100308-10-P-0075.pdf](http://www.epa.gov/oig/reports/2010/20100308-10-P-0075.pdf)

## ***EPA Does Not Always Receive Adjustment Vouchers from Contractors***

### **What We Found**

EPA does not always receive adjustment vouchers from contractors for final negotiated indirect cost rates. The final indirect cost rate agreements provide the contractor 60 days to submit a voucher for any billing adjustments. For 17 of the 20 DCAA audit reports in our sample, EPA did not timely receive an adjustment voucher on at least one or more EPA contracts. The 20 audit reports impacted 52 EPA contracts, for which EPA did not receive adjustment vouchers for 33. Seven adjustment vouchers were received late. The only nine vouchers that were received timely all involved EPA owing the contractor money.

EPA does not have an effective system to ensure required adjustment vouchers are received. As a result, EPA allowed contractors to keep government funds and provided them with interest-free loans in those cases where the contractor owed EPA money. In some cases, contractors kept money owed the government for years. For example, one contractor that did not submit adjustment vouchers during the life of two 4-year contracts owed the government \$207,494. As a result of our review, EPA received a credit of \$4,713 from one contractor and \$263,193 from another contractor, for a total of \$267,906.

### **What We Recommend**

We recommend that the Assistant Administrator for Administration and Resources Management require its Office of Acquisition Management to track receipt of adjustment vouchers and monies owed EPA for final negotiated indirect cost rates. We also made recommendations to identify agreements where adjustments have not been made, require financial administrative contracting officers to provide needed information to contracting officers, and increase contracting officer and projects officer awareness of their responsibilities related to indirect cost rate agreements and adjustment vouchers. EPA agreed with our recommendations or took alternate corrective actions that we considered satisfactory.



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

OFFICE OF  
INSPECTOR GENERAL

March 8, 2010

**MEMORANDUM**

**SUBJECT:** EPA Does Not Always Receive Adjustment Vouchers from Contractors  
Report No. 10-P-0075

**FROM:** Melissa M. Heist *Melissa M. Heist*  
Assistant Inspector General for Audit

**TO:** Craig E. Hooks, Assistant Administrator  
Office of Administration and Resources Management

This is our report on the U.S. Environmental Protection Agency's (EPA's) practice of not always receiving adjustment vouchers from contractors. This report contains findings that describe the problems the EPA Office of Inspector General (OIG) identified and corrective actions the OIG recommends. This report represents the position of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$398,166.

**Action Required**

In responding to the draft report, the Agency provided corrective action plans for addressing all recommendations. Therefore, a response to the final report is not required. The Agency should track in the Management Audit Tracking System those recommendations not yet implemented. We have no objections to the further release of this report to the public. The report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact me at 202-566-0899 or [heist.melissa@epa.gov](mailto:heist.melissa@epa.gov); or Janet Kasper, Product Line Director, at 312-886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

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# Chapter 1

## Introduction

### Purpose

The U.S. Environmental Protection Agency's (EPA) Office of Inspector General (OIG) conducted this audit to determine whether EPA is timely receiving adjustment vouchers and credits from contractors based on sustained Defense Contract Audit Agency (DCAA) audit report results.

### Background

EPA uses contracts to aid in accomplishing its mission. According to the Fiscal Year (FY) 2008 Acquisition Activity Report, EPA obligated over \$1.5 billion in contracts during that fiscal year. At the request of EPA's Office of Acquisition Management (OAM), DCAA performs audits of final indirect cost rate proposals that impact EPA contracts to determine whether costs incurred are allocable, reasonable, and allowable in accordance with the Federal Acquisition Regulation (FAR) and contract terms. For contractors other than educational institutions and nonprofit organizations, DCAA is normally the responsible government audit agency. In FY 2008, EPA requested 282 DCAA audits and received and processed 163 DCAA audit reports. For this same period, DCAA questioned over \$3.2 million of claimed costs as unallocable, unreasonable, or unallowable per FAR and/or contract terms.

In accordance with the allowable cost and payment clause at FAR 52.216-7, the contractor must submit to the contracting officer (CO) and cognizant auditor a final indirect cost rate proposal. Each contractor must submit an adequate proposal within the 6-month period following the expiration of each of its fiscal years. DCAA issues the audit reports to OAM and EPA financial administrative contracting officers (FACOs) review the results. After negotiations with the contractor, the FACOs establish final indirect cost rate agreements. Once the final indirect cost rate agreement is established, contractors are required to submit adjustment vouchers to EPA within 60 days of the agreement date. These vouchers adjust contractor billings for the differences between billed indirect costs and the indirect costs resulting from the application of the negotiated indirect costs rates for the period specified.

### Scope and Methodology

We performed this audit from February to December 2009 in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

According to OIG's DCAA Monitoring Application Database, in FY 2008, there were 39 DCAA audits closed that contained questioned costs totaling \$4,978,843. We reviewed 20 of the 39 DCAA audit reports. We stratified the universe by high dollar and low dollar audits with high dollar audits representing questioned costs greater than \$100,000. We conducted a 100-percent review of the six high dollar audits and selected an additional 14 audits for review.

Our work encompassed reviewing contracts located in EPA Headquarters in Washington, DC, as well as the EPA regional offices that had contracts in our sample (Regions 2, 3, 4, 7, and 8). We requested the Agency to provide us copies of adjustment vouchers and checks to verify that payments had been made. If adjustment vouchers had not been received, we requested the Agency to provide a written explanation why. Additionally, we reviewed the Financial Data Warehouse to determine whether vouchers were paid for the selected contracts in our sample. We interviewed COs and project officers (PO) from Headquarters; the five regions noted; Research Triangle Park, North Carolina; and Cincinnati, Ohio. We also interviewed the FACO Team Leader, the EPA Audit Program Manager for DCAA Monitoring, the Acting OAM Policy Director, and two OAM Service Center Managers. There were no previous audits of EPA's resolution of DCAA reports.

### ***Internal Control Structure***

In planning and performing our audit, we reviewed management controls related to our objective. Specifically, we examined EPA's Acquisition Handbook, the EPA Acquisition Regulation, and other guidelines that outline EPA's controls and monitoring procedures for addressing the audit resolution process. We reviewed quality assurance plans from each program operating division, as well as OAM's review of the quality assurance plans. OAM Divisions as well as regional contracting offices are empowered to develop their own quality assurance plans, which set forth their program to ensure their acquisition products and processes are of high quality and comply with applicable statutes as well as federal and Agency regulations and policies.

We reviewed documents EPA completed in compliance with the Federal Managers' Financial Integrity Act. This included a review of the Office of Administration and Resources Management's FY 2008 Federal Managers' Financial Integrity Act Assurance Letter. EPA did not identify internal control weaknesses related to the audit's objectives.

## Chapter 2

### EPA Not Always Receiving Adjustment Vouchers from Contractors

EPA did not always receive adjustment vouchers from contractors for final negotiated indirect cost rates. In accordance with EPA policy, contractors are to submit adjustment vouchers within 60 days of signing the indirect rate agreement. For 17 of the 20 DCAA audit reports in our sample, EPA did not timely receive corresponding adjustment vouchers on at least one or more EPA contracts impacted by each DCAA audit. The 20 audit reports impacted 52 EPA contracts, for which EPA did not receive adjustment vouchers for 33. This occurred because EPA does not have an effective process for distributing indirect cost rate agreements and receiving adjustment vouchers. As a result, EPA allowed contractors to keep government funds and provided them with an interest-free loan in those cases where the contractor owed EPA money, sometimes for years. For example, one contractor that did not submit adjustment vouchers during the life of two 4-year contracts owed the government \$207,494. As a result of our review, EPA received a credit of \$4,713 from one contractor and \$263,193 from another contractor, for a total of \$267,906.

#### EPA and OMB Policy Requires Submission and Tracking of Adjustment Vouchers

EPA's Acquisition Handbook requires that indirect cost rate agreements identify the timeframe within which contractors must submit adjustment vouchers to implement the rates established. According to the policy, the indirect rate agreements are to state that the contractor has 60 days from the date of the agreement to submit a voucher for any billing adjustments.

EPA's Acquisition Handbook establishes procedures and identifies the roles and responsibilities of EPA staff when processing indirect cost rate agreements. FACOs are responsible for distributing indirect rate agreements to both contractors and COs. COs are responsible for ensuring POs receive a copy of the indirect cost rate agreement, and POs are responsible for notifying COs if they do not receive the adjustment voucher within 60 days of the signed agreement. The CO is responsible for follow-up action with the contractor once informed that the adjustment voucher has not been received.

EPA Manual 2750 outlines the EPA audit management process and contains policies for resolving audit recommendations, including those involving funds owed to EPA. To support the audit management process, EPA established a Management Audit Tracking System (MATS). Reports from MATS help the CO and office's Audit Follow-up Coordinator monitor the status of corrective actions,



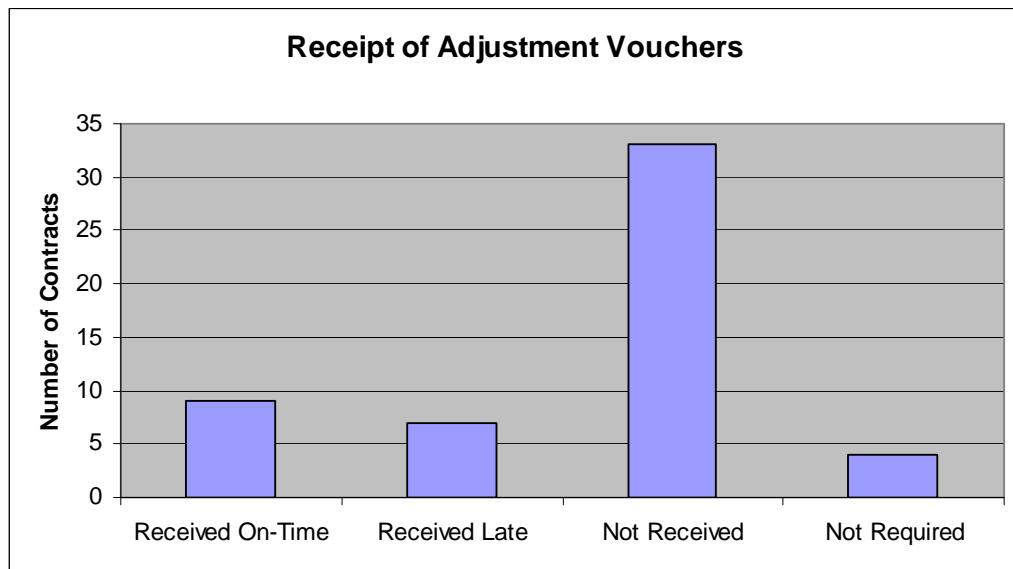
monies owed the Agency, and recommended efficiencies to which the action official agreed.

Office of Management and Budget Circular A-50 provides procedures for executive agencies when considering reports by Inspectors General, other executive branch audit organizations, etc. In order to ensure effective recovery action, A-50 requires agencies to establish accounting and collection controls for amounts due to the government.

### Contractors Not Timely Submitting Adjustment Vouchers

EPA often did not receive contractor adjustment vouchers for final negotiated indirect cost rates within the 60-day EPA requirement. For 17 of the 20 audit reports in our sample, EPA did not timely receive corresponding adjustment vouchers on at least one or more EPA contracts. The 20 DCAA audits in our sample impacted 52 EPA contracts, and for 33 of those contracts the contractor did not submit an adjustment voucher, as shown in Figure 2-1. For seven other contracts in our sample, the contractor submitted the adjustment vouchers after the 60-day timeframe. For all nine contracts where adjustment vouchers were submitted within the 60-day timeframe, EPA owed the contractor money. EPA did not require adjustment vouchers for the remaining three contracts for various reasons, such as the final negotiated indirect cost rate exceeding the ceiling rate included in the contract.

**Figure 2-1: Receipt of Adjustment Vouchers**



Source: OIG analysis of EPA data.

One contractor with two contracts in our sample did not submit the required adjustment vouchers for either of the contracts for 2 consecutive years. The final indirect cost rate agreements for both years clearly stated the contractor was required to submit a voucher that adjusted for the difference between billed

indirect costs and the indirect costs resulting from application of the negotiated final indirect cost rates within 60 days. EPA has paid the contractor a total of \$127 million over the life of the contracts. Even small changes in indirect rates on such large contracts could result in thousands of taxpayer dollars owed to EPA.

For another contract, a contractor provided services to EPA on three separate task orders. The final indirect cost rate agreement was signed in March 2008 and was for the period April 1, 2003, through March 31, 2004. The contractor submitted adjustment vouchers within 60 days. However, the vouchers were submitted for the period through October 5, 2003, rather than through the March 31, 2004, date as established in the final indirect cost rate agreement. After the OIG notified EPA of this, the contractor submitted supplemental invoices covering the entire period of the indirect cost rate agreement, resulting in credits to EPA for two task orders for over \$4,700.

## **Process for Distributing Indirect Cost Rate Agreements and Receiving Adjustment Vouchers Not Effective**

EPA does not have an effective process for distributing indirect cost rate agreements and receiving adjustment vouchers. Specifically, (1) EPA does not track the receipt of adjustment vouchers required to be submitted by contractors, (2) COs and POs do not always receive indirect rate cost agreements, (3) some COs and POs were unaware of their responsibilities related to indirect cost rate agreements, and (4) some COs wait until the entire contract period of performance expires before ensuring receipt of adjustment vouchers.

### ***EPA Does Not Track Receipt of Adjustment Vouchers***

EPA does not track the receipt of adjustment vouchers in MATS. During 2008, EPA tracked audit report resolution in MATS, but closed the audit reports in MATS after it executed a final indirect rate agreement. EPA did not track the subsequent receipt of the corresponding adjustment vouchers related to the indirect rate agreements. In 2009, EPA began using a different system to track audit report resolution, but this system also is not used to track receipt of adjustment vouchers. Further, EPA does not have any other internal controls to track the receipt of adjustment vouchers, including assigning responsibility for tracking to any one group or person. Because of the lack of any tracking system and internal controls, EPA is relying on contractors to submit adjustment vouchers and identify the amount of money owed to either EPA or the contractor.

### ***COs and POs Not Always Receiving Indirect Cost Rate Agreements***

FACOs do not always provide COs with the indirect cost rate agreements necessary to administer the contracts for which they are responsible. Of the 14 COs interviewed, 3 said they never received the indirect cost rate agreement. In one case, the EPA FACO issued a unilateral indirect cost rate agreement. Due

to an oversight, the FACO never provided the agreement to the contractor or EPA's contracting officers. While this case was an oversight, FACOs do not identify the impacted contracts in the indirect cost rate agreement and do not always proactively identify the COs that should receive the indirect cost rate agreement. Instead, the FACOs post the indirect rate agreement on an EPA software system that can be accessed by COs or they provide the rate agreement to the head of each contracting office (region, Research Triangle Park, etc.). The Office of Administration and Resources Management's Financial Analysis and Oversight Service Center staff told us it is difficult for them to identify the current CO because of turnover and changes in the CO responsible for each contract.

Likewise, 10 of 14 POs we interviewed said the COs did not provide them the indirect cost rate agreement as required by the EPA Acquisition Handbook. COs did not provide the POs the rate agreement because they were not aware of this requirement or because they did not receive the rate agreement from the FACO. In some cases, the POs were only made aware of the existence of the indirect cost rate agreement when the contractor submitted the adjustment voucher. POs are not aware that adjustment vouchers are due if they do not receive a copy of the indirect cost rate agreement.

### ***COs and POs Not Always Aware of Their Responsibilities***

COs and POs were not always aware of their responsibilities regarding indirect cost rate agreements and adjustment vouchers. Seven of 13 COs interviewed were not familiar with requirements of the EPA Acquisition Handbook regarding their responsibilities for indirect cost rate agreements and adjustment vouchers. Six COs were not aware that they were required to provide a copy of the indirect cost rate agreement to the PO. Five COs were not aware that they should contact the contractor after receiving notification from the PO that the adjustment voucher had not been received. Also, 10 of 14 POs interviewed were not familiar with their responsibilities. Seven POs did not know that the contractor should submit an adjustment voucher within 60 days of the date of the indirect cost rate agreement. Further, seven POs did not know that if the adjustment voucher is not received they must inform the CO.

### ***Adjustment Vouchers Not Submitted until Contract Close-Out***

For some contracts in our sample, the contractor did not submit adjustment vouchers until after the contract had expired. For example, one contractor had two contracts for which indirect cost rate agreements were signed in 2005, 2006, 2007, and 2008 but adjustment vouchers for these years were not submitted until 2008, after the contract's period of performance had expired. All of the final indirect cost rate agreements clearly stated that the adjustment vouchers were due within 60 days.

Some EPA COs indicated that it is their practice to wait until the end of the contract and process indirect rate agreement changes as part of contract close-out. However, EPA's experience with another contractor highlights the consequences of waiting until contract close-out – by the time the final indirect cost rate agreement was signed the contractor no longer had contracts with EPA, the president of the company had retired, and the business no longer existed. Additionally, the contractor has been nonresponsive to inquiries from EPA and EPA staff indicated that obtaining an adjustment voucher would be difficult under the circumstances.

## Lack of Timeliness Allows Contractors to Keep Government Funds

By not ensuring that adjustment vouchers are received in a timely manner, EPA is allowing contractors to keep government funds and providing them with an interest-free loan when the contractor owes EPA money. For example, in 2007, EPA and one of its contractors signed indirect cost rate agreements for the periods November 1996 through October 2000 and November 2000 through October 2003. After the OIG asked EPA whether the contractor had submitted the adjustment voucher, EPA reminded the contractor that adjustment vouchers were needed. The contractor subsequently submitted a credit voucher to EPA in September 2009 acknowledging that it owed EPA over \$263,000. Also, as noted previously, our notifying EPA of a contractor submitting an incorrect adjustment voucher resulted in \$4,700 in credits to EPA.

In another case, one of EPA's contractors did not submit adjustment vouchers for two contracts to EPA until 2008, after the contract's period of performance had expired. From 2001 through 2006, EPA paid the contractor a total of \$20,150,583 under the two contracts. As shown in Tables 2-1 and 2-2, one contractor that did not submit adjustment vouchers during the life of two 4-year contracts owed the government \$207,494. These funds could have been used to conduct other work.

**Table 2-1: Example of Interest-Free Loan to Contractor for Contract #1**

| Fiscal Year  | Date of Indirect Cost Rate Agreement | Date Adjustment Voucher Due | Date Contractor Submitted Adjustment Voucher | Amount Due to EPA |
|--------------|--------------------------------------|-----------------------------|--|-------------------|
| 2002         | 4/18/05                              | 6/17/05                     | 9/24/08                                      | \$30,039          |
| 2003         | 12/28/06                             | 2/26/07                     | 9/24/08                                      | \$45,655          |
| 2004         | 9/6/07                               | 11/05/07                    | 9/24/08                                      | \$13,234          |
| 2005         | 6/26/08                              | 8/25/08                     | 9/24/08                                      | \$56,692          |
| <b>Total</b> |                                      |                             |  | <b>\$145,620</b>  |

Source: OIG analysis of EPA data.

**Table 2-2: Example of Interest-Free Loan to Contractor for Contract #2**

| <b>Fiscal Year</b> | <b>Date of Indirect Cost Rate Agreement</b> | <b>Date Adjustment Voucher Due</b> | <b>Date Contractor Submitted Adjustment Voucher</b> | <b>Amount Due to EPA</b> |
|--------------------|---|------------------------------------|---|--------------------------|
| 2002               | 4/18/05                                     | 6/17/05                            | 10/15/08  | \$11,768                 |
| 2003               | 12/28/06                                    | 2/26/07                            | 10/15/08  | \$22,866                 |
| 2004               | 9/6/07                                      | 11/05/07                           | 10/15/08  | \$4,250                  |
| 2005               | 6/26/08                                     | 8/25/08                            | 10/15/08  | \$22,990                 |
| <b>Total</b>       |   |                                    |   | <b>\$61,874</b>          |

Source: OIG analysis of EPA data.

**Conclusion**

EPA needs to increase management and staff awareness of their responsibilities for ensuring that contractors submit adjustment vouchers timely. The submission of adjustment vouchers resulting from negotiating final indirect cost rates with contractors helps ensure that EPA pays, and contractors receive, a fair price for services rendered to the government. Systemic breakdowns in EPA’s management of this process have resulted in contractors unnecessarily keeping taxpayer dollars for years.

**Recommendations**

We recommend that the Assistant Administrator for Administration and Resources Management:

- 2-1 Track receipt of adjustment vouchers and monies owed EPA for final negotiated indirect cost rates in accordance with Office of Management and Budget Circular A-50.
- 2-2 Identify all final indirect cost rate agreements where adjustment vouchers have not been submitted and track them to ensure receipt.
- 2-3 Require FACOs to identify all contracts impacted and list those contracts in the final indirect cost rate agreements.
- 2-4 Require FACOs to provide the final indirect cost rate agreement directly to the COs for contracts impacted by the agreement.
- 2-5 Increase COs’ and POs’ awareness of their responsibilities for processing and managing indirect cost rate agreements and adjustment vouchers through discussions and presentations at meetings and conferences on contract management, as well as through articles in OAM’s quarterly newsletter on current policy initiatives.

## Agency Comments and OIG Evaluation

The Agency's response sufficiently addressed all our recommendations. EPA agreed with recommendations 2-1, 2-2, 2-3, and 2-5, and provided milestone dates for completion of the following actions:

- Establish a process to ensure that adjustment vouchers and monies owed EPA are tracked (March 31, 2010);
- Publish an article in the next *Hot Tips* to raise awareness for enhanced CO oversight (March 31, 2010);
- List prime contracts in indirect cost rate agreements, and incorporate a statement in the final indirect cost rate agreements identifying that the purpose of the agreement is to establish indirect rates applicable to all prime contracts and subcontracts that the vendor holds with EPA (February 1, 2010); and
- Increase knowledge of COs' and POs' awareness by making presentations at upcoming contractor forums (Spring 2010) and EPA's annual Acquisition Conference.

EPA did not provide a milestone date in its written response for recommendation 2-2, but later provided a milestone of March 31, 2010, in separate correspondence.

In response to recommendation 2-4, EPA stated that as of October 1, 2009, the FACOs are required to distribute negotiated indirect cost rate agreements to all affected OAM Service Center Managers and Regional Contracting Officer Supervisors. At the exit conference, EPA stated that these staff members will distribute the negotiated indirect cost rate agreements to COs. This practice meets the intent of our recommendation.

As a result of our review, EPA received a credit of \$4,713 from one contractor and \$263,193 from another contractor, for a total of \$267,906.

## **Status of Recommendations and Potential Monetary Benefits**

| RECOMMENDATIONS |          |   |                     |   |                         | POTENTIAL MONETARY BENEFITS (in \$000s) |                  |
|-----------------|----------|---|---------------------|---|-------------------------|---|------------------|
| Rec. No.        | Page No. | Subject   | Status <sup>1</sup> | Action Official   | Planned Completion Date | Claimed Amount                          | Agreed To Amount |
| 2-1             | 8        | Track receipt of adjustment vouchers and monies owed EPA for final negotiated indirect cost rates in accordance with Office of Management and Budget Circular A-50.   | O                   | Assistant Administrator for Administration and Resources Management | 3/31/2010               |   |                  |
| 2-2             | 8        | Identify all final indirect cost rate agreements where adjustment vouchers have not been submitted and track them to ensure receipt.  | O                   | Assistant Administrator for Administration and Resources Management | 3/31/2010               |   |                  |
| 2-3             | 8        | Require FACOs to identify all contracts impacted and list those contracts in the final indirect cost rate agreements.   | C                   | Assistant Administrator for Administration and Resources Management | 2/1/2010                |   |                  |
| 2-4             | 8        | Require FACOs to provide the final indirect cost rate agreement directly to the COs for contracts impacted by the agreement.  | C                   | Assistant Administrator for Administration and Resources Management | 10/1/2009               |   |                  |
| 2-5             | 8        | Increase COs' and POs' awareness of their responsibilities for processing and managing indirect cost rate agreements and adjustment vouchers through discussions and presentations at meetings and conferences on contract management, as well as through articles in OAM's quarterly newsletter on current policy initiatives. | O                   | Assistant Administrator for Administration and Resources Management | 6/30/2010               |   |                  |
| -               | -        | <b>NOTE:</b> As a result of our review, EPA received a credit of \$4,713 from one contractor and \$263,193 from another contractor, for a total of \$267,906.   |                     | Assistant Administrator for Administration and Resources Management |                         | \$267.9                                 | \$267.9          |

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress

## Appendix A

## Agency Response

### MEMORANDUM

**SUBJECT:** EPA Does Not Always Receive Adjustment Vouchers from Contractors  
Project Number No. OA-FY09-0808

**FROM:** Craig E. Hooks  
Assistant Administrator

**TO:** Melissa M. Heist  
Assistant Inspector General for Audit

We appreciate the opportunity to comment on the draft report entitled, "EPA Does Not Always Receive Adjustment Vouchers from Contractors," dated December 16, 2009. Our comments on the report and recommendations are below:

#### **Specific Recommendations and Responses:**

**Recommendation 2-1** – We recommend that the Assistant Administrator (AA) for the Office of Administration and Resources Management (OARM) track receipt of adjustment vouchers and monies owed EPA for final negotiated indirect cost rates in accordance with OMB Circular A-50.

**Response** – OAM concurs with this recommendation. OAM will establish a process to ensure that adjustment vouchers and monies owed to EPA are tracked effective March 31, 2010.

**Recommendation 2-2** - We recommend that the Assistant Administrator (AA) for the Office of Administration and Resources Management (OARM) identify all final indirect cost rate agreements where adjustment vouchers have not been submitted and track them to ensure receipt.

**Response** – OAM concurs with this recommendation. The Contracting Officers (COs) will review all final indirect cost rate agreements and determine which vouchers have not been submitted and track them to ensure receipt. OAM will also include an article in the next Policy Hot Tips (see response to Recommendation 2-5) to raise awareness for enhanced COs oversight. Policy Hot Tips article will be issued by March 31, 2010.

**Recommendation 2-3**- We recommend that the Assistant Administrator (AA) for the Office of Administration and Resources Management (OARM) require FACOs to identify all contracts impacted and list those contracts in the final indirect cost rate agreements.



**Response** – We concur with this recommendation. The Financial Administrative Contracting Officers (FACOs) will list the prime contracts in the indirect cost rate agreements. In addition, the FACOs will incorporate a statement identifying that the purpose of the agreement is to establish indirect rates which will apply to all of the prime contracts and subcontracts which the vendor holds with EPA. This change will be implemented for all indirect cost rate agreements issued on or after February 1, 2010.

**Recommendation 2-4** – We recommend that the Assistant Administrator (AA) for the Office of Administration and Resources Management (OARM) require FACOs to provide the final indirect costs rate agreement directly to the Cos for contracts impacted by the agreement.

**Response** – We agree that it is important that the final indirect cost rate agreement is provided to the COs for contracts impacted by the agreement. We, however, do not agree that the FACOs should be required to provide them directly to the COs. Instead, we believe that our current rate agreement process meets this requirement. Effective October 1, 2009, the FACOs are required to distribute negotiated indirect cost rate agreements to all affected OAM Service Center Managers and Regional Contracting Officer Supervisors. Since contract staff assignments fluctuate on a regular basis, this ensures that the agreements will be distributed to the current contracting personnel who are managing the contracts. By submitting the rate agreements to the managers and supervisors, there is increased continuity and visibility in the process.

**Recommendation 2-5** – We recommend that the Assistant Administrator (AA) for the Office of Administration and Resources Management (OARM) increase COs' and POs' awareness of their responsibilities for processing and managing indirect cost rate agreements and adjustment vouchers through discussions and presentations at meetings and conferences on contract management, as well as through articles in OAM's quarterly newsletter on current policy initiatives.

**Response** – OAM concurs with this recommendation. This topic will also be presented at the Spring 2010 contractor forum in San Francisco, CA, and the annual Project Officer/Contracting Officer (POCO) and Acquisition conference, Travel funds permitting. OAM will also include information with respect to this topic in the next "Policy Hot Tips". The article will discuss the roles and responsibilities of the Contractors, Contracting Officers Representatives (CORs), Contract Specialists (CSs), and COs; as well as the importance of processing adjustment vouchers in a timely manner.

If you have any questions regarding this response, please contact me at (202) 564-4600 or John Gheradini at (202) 564-4310.

**Appendix B**

***Distribution***

Office of the Administrator  
Assistant Administrator for Administration and Resources Management  
Acting Director for Acquisition Management, Office of Administration and  
Resources Management  
Agency Follow-up Official (the CFO)  
Agency Follow-up Coordinator  
General Counsel  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Audit Follow-up Coordinator, Office of Administration and Resources Management  
Acting Inspector General