



# At a Glance

## Why We Did This Review

The purpose of this review was to determine whether the U.S. Environmental Protection Agency's (EPA's) Region 6 is managing task orders under the Emergency and Rapid Response Services (ERRS) contracts effectively and whether contractors are billing Region 6 in accordance with contract terms.

Region 6 awarded its two current ERRS contracts (EP-S6-07-01 and EP-S6-07-02) in May 2007. At the time of our preliminary review, EP-S6-07-01 had 124 issued task orders and EP-S6-07-02 had 50 issued task orders. The combined total expended amount on both contracts was \$77,579,001 as of October 2012.

## This report addresses the following EPA theme:

- *Embracing EPA as a high performing organization.*

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

The full report is at:  
[www.epa.gov/oig/reports/2014/20140204-14-P-0109.pdf](http://www.epa.gov/oig/reports/2014/20140204-14-P-0109.pdf)

## ***Internal Controls Needed to Control Costs of Emergency and Rapid Response Services Contracts, as Exemplified in Region 6***

### What We Found

Region 6 manages field activities under the ERRS contracts within the terms of the contract. However, our review of task order files and invoices submitted under those task orders showed us that infrequent internal control reviews and inadequate staffing levels hamper Region 6's ability to prevent and detect many contract management shortcomings, such as:

- Performing required annual invoice reviews.
- Monitoring contractor adjustment vouchers.
- Receiving prime contractor negotiated team subcontract agreements on time.
- Correctly coding task orders in the EPA Acquisition System.
- Performing adequate internal control reviews.

**Improper application of general and administrative rates resulted in higher costs to the government.**

Without adequate staffing levels, Region 6 is unable to conduct internal control reviews. Such reviews are a tool for ensuring that products comply with regulations and are consistently of high quality. Without internal control reviews, crucial aspects in the acquisition cycle cannot be assessed and management cannot determine and properly address weaknesses and vulnerabilities.

We identified two conditions that resulted in higher costs to the government. One prime contractor was applying a general and administrative indirect rate to its team subcontractors' other direct costs, which went against the prime contractor's proposal and indirect cost rate letter. Also, both prime contractors were receiving additional profit because the fixed labor rates negotiated between the EPA and the ERRS prime contractors were based solely on the prime's labor rates.

### Recommendations and Planned Corrective Actions

We recommend that the Region 6 Regional Administrator require procurement personnel to conduct internal control reviews twice a year or declare contract management as a weakness in Region 6's next Federal Managers' Financial Integrity Act submission until Region 6 starts conducting internal control reviews. We also recommend that the Regional Administrator address issues related to subcontract other direct costs in the existing ERRS contracts, and require that proposals for future ERRS contracts include subcontractor rates as required.

Region 6 concurred with three out of five recommendations. Region 6 did not concur with recommendations 3 and 4, to require the contractor to adjust all billings to reflect application of the correct rate to team subcontract other direct costs, and to modify future billings. Region 6 believes the amounts involved are immaterial and do not justify the investment in time that would be needed to adjust all past invoices. These recommendations remain unresolved.