



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



## *Spending Taxpayer Dollars*

# **Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7**

Report No. 15-P-0215

July 20, 2015



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## Report Contributors:

Janet Kasper  
Michael Petscavage  
David Penman  
Anthony Grear

## Abbreviations

CMAP	Contracts Management Assessment Program
CO	Contracting Officer
COR	Contracting Officer's Representative
EPA	U.S. Environmental Protection Agency
FAR	Federal Acquisition Regulation
G&A	General and Administrative
IGCE	Independent Government Cost Estimate
ODC	Other Direct Cost
OIG	Office of Inspector General
PM	Program Management
PO	Project Officer
SOW	Statement of Work
START	Superfund Technical Assessment & Response Team Contracts
TOPO	Task Order Project Officer

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# At a Glance

## Why We Did This Audit

The purpose of this audit was to determine whether the U.S. Environmental Protection Agency's (EPA's) Region 7 is monitoring its Superfund Technical Assessment & Response Team (START) contract to ensure compliance with contract terms and to ensure the costs billed are in accordance with the terms and conditions of the contract.

Region 7 awarded the START contract in June 2013. The contract contains a 3-year base period with a 2-year option, and has a maximum value of \$54,174,363. With large spending comes a higher risk of fraud, waste and abuse.

### **This report addresses the following EPA goal or cross-agency strategy:**

- *Embracing EPA as a high-performing organization.*

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The full report is at: [www.epa.gov/oig/reports/2015/20150720-15-P-0215.pdf](http://www.epa.gov/oig/reports/2015/20150720-15-P-0215.pdf)

## ***Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7***

### What We Found

The EPA spends hundreds of millions of dollars under START contracts. We found that Region 7 is not adequately reviewing contractor bills to ensure compliance with the START contract terms. Based on a limited sample of 10 invoices, we found \$82,322 in unallowable billings. Additionally, we found that Region 7 is not adequately monitoring the contractor for compliance with the contract requirements. Specifically, we found that:

**Lack of oversight led to unallowable billings of \$82,322 and noncompliance with contract terms and conditions.**

- Region 7 did not sufficiently review contractor invoices.
- Monthly progress reports did not meet contract requirements.
- Contractor billings included double-billed items and other unallowable items.
- Staffing plans were not being received as required.
- The region's annual invoice reviews were lacking.
- Adjustment vouchers were not submitted timely.
- The region's START Contracting Officer did not timely appoint Contracting Officer's Representatives for the contract.
- Statements of Work were too general and Independent Government Cost Estimates lacked details.
- Contract clauses were incomplete, repetitive or contradictory.

### Recommendations and Planned Agency Corrective Actions

This report makes 26 recommendations. Most of the recommendations are to the Region 7 Administrator, but we do make two recommendations to the Assistant Administrator for Administration and Resources Management. Our recommendations require personnel to notify the contractor of required contract data not being received, use current guidance and tools to review contractor invoices, recover unallowable costs billed on the contract, and properly nominate and appoint contracting officer's representatives on the contract.

The EPA agreed with most of the recommendations and provided corrective actions and estimated completion dates. Where the agency did not agree with a recommendation, it proposed an acceptable alternate corrective action. No final response from the agency is required because all recommendations are resolved.



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

THE INSPECTOR GENERAL

July 20, 2015

**MEMORANDUM**

**SUBJECT:** Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7  
Report No. 15-P-0215

**FROM:** Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

**TO:** Mark Hague, Acting Regional Administrator  
Region 7

Karl Brooks, Acting Assistant Administrator  
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion 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 office responsible for implementing the recommendations is the Office of Acquisition Management within the Office of Administration and Resources Management.

**Action Required**

In accordance with EPA Manual 2750, your office provided acceptable and complete planned corrective actions in response to OIG recommendations. Therefore, all recommendations are resolved and no final response to this report is required.

We will post this report to our website at <http://www.epa.gov/oig>.

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# Chapter 1

## Introduction

### Purpose

The U.S. Environmental Protection Agency (EPA) spends hundreds of millions of dollars under Superfund Technical Assessment & Response Team (START) contracts. The purpose of START contracts are to provide nationally consistent advisory and assistance services to EPA On-Scene Coordinators and other federal officials implementing the EPA's responsibilities under the National Response System. With large spending comes a higher risk of fraud, waste and abuse.

The Office of Inspector General (OIG) conducted an audit of the Region 7 START contract because of the high dollar value of the contract and because the contract had been recently awarded (June 2013). Our objectives were to determine whether:

- The EPA is monitoring the contractor for compliance with the terms and conditions of the contract.
- The costs billed are in accordance with the contract terms and conditions.

### Background

Each year, thousands of emergencies involving oil spills or the release (or threatened release) of hazardous substances are reported in the United States. Emergencies range from small-scale spills to large events requiring prompt action and evacuation of nearby populations. The National Response System is the principal federal mechanism for responding to releases of hazardous substances and oil, utilizing a multi-layered network of individuals and teams for federal, state and local agencies, and industry. The EPA's role under the National Response System is to respond to these emergencies within its area of jurisdiction.

To respond to these emergencies, the EPA established the START contracts. The START contracts provide technical support for site assessment, response, and prevention and preparedness activities. This support includes gathering and analyzing technical information, preparing technical reports on oil and hazardous substance investigations, and technical support for cleanup efforts. According to data provided in September 2014, there were 19 START contracts with expenditures of \$442.2 million and obligations of \$509.5 million.

#### ***Region 7's START Contract***

The Region 7 START contract (EP-S7-13-06) was awarded on June 11, 2013, and includes a 3-year base period, with an option for 2 additional years. The contract has a maximum potential value of approximately \$54.2 million. The contract is a

fixed rates for services - indefinite delivery/indefinite quantity contract that issues task orders using a time-and-materials pricing arrangement. As of September 2014, there were 77 task orders issued that incurred expenditures. The total amount expended up until that timeframe was \$5,004,459.

The contract contains fixed labor rates for specific categories. The contractor developed the fixed labor rates using average salary data, and then applied indirect costs via its fringe, overhead and general and administrative (G&A) rates. Once the direct labor rates were calculated, the contractor developed its program management (PM) allocation. The PM allocation consisted of activities such as the development of staffing plans, contract level-required reports and subcontractor management. The PM allocation also included estimations on chemical protective clothing such as disposable Tyvek suits, gloves and respirator cartridges. The PM allocation was then applied to all labor rates.

The contract had a placement contracting officer (CO) who issued the solicitation and subsequent award. After award, the contract was assigned to another CO for administration. The overall contract is managed by a project officer (PO) and each task order has a task order project officer (TOPO) assigned who manages the applicable task order.

### ***Newly Issued Policy Supersedes Previous Polices and Guidance***

On October 1, 2014, the EPA issued a flash notice stating that policy and guidance documents for acquisition management will be the Environmental Protection Agency Acquisition Regulations, Interim Policy Notices and the new EPA Acquisition Guide exclusively. The EPA Acquisition Guide combines the EPA's Acquisition Handbook and Contracts Management Manual into one guide. Because the new guidance was issued during the period of performance of the Region 7 START contract, we used both the previous and newly issued guidance during the course of the audit.

## **Related Reports**

The OIG has issued several reports on the management of Superfund contracts that identified issues similar to those in this report. However, these reports resulted in recommendations that were specific to the contracts reviewed. In EPA OIG Report No. 14-P-0109, *Internal Controls Needed to Control Costs of Emergency and Rapid Response Services Contracts, as Exemplified in Region 6* (<http://www.epa.gov/oig/reports/2014/20140204-14-P-0109.pdf>), issued February 4, 2014, the OIG reported that Region 6 personnel were not:

- Performing required annual invoice reviews.
- Monitoring contractor adjustment vouchers.

In EPA OIG Report No. 13-P-0209, *Opportunities for EPA-Wide Improvements Identified During Review of a Regional Time and Materials Contract* (<http://www.epa.gov/oig/reports/2013/20130404-13-P-0209.pdf>), issued April 4, 2013, the OIG reported that Region 9 contracting personnel did not consistently:

- Document review of the monthly progress reports.
- Review the qualifications of contractor staff.
- Issue memorandums appointing contracting officer's representatives.

A third EPA OIG report, Report No. 11-P-0217, *Hotline Allegations Unsubstantiated, but Region 7 Contract Administration and Award Issues Identified* (<http://www.epa.gov/oig/reports/2011/20110504-11-P-0217.pdf>), issued May 4, 2011, found that Region 7 did not conduct an annual invoice review for a Superfund contract. Region 7's implementation of the recommendation is discussed in Chapter 2.

## Responsible Offices

The offices responsible for the implementation of the audit recommendations include Region 7's Superfund Division and its Office of Policy and Management; and the Office of Acquisition Management within the Office of Administration and Resources Management.

## Scope and Methodology

We conducted this performance audit from August 2014 to May 2015 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.

To determine whether Region 7 was monitoring the contractor for compliance with the terms and conditions of the contract, we reviewed pre- and post-award documents such as the solicitation, the contractor's proposal, internal reviews, the contract, and subsequent task orders. To determine whether the costs were being billed in accordance with the terms and conditions of the contract, we reviewed contractor-submitted invoices, a monthly progress report, and tasking documents associated with the invoices. We also reviewed the Federal Acquisition Regulation (FAR) and agency policy pertaining to contract administration and management to assess compliance with those internal controls.

To gain an understanding of the policies, procedures and controls in place for the START contract we interviewed agency staff from Region 7's Superfund Division and its Office of Policy and Management; staff from Region 4's



Superfund Division (regarding crossover work done under a Region 7 contract); staff from the Office of Emergency Management within the Office of Solid Waste and Emergency Response; and staff from the Office of Acquisition Management within the Office of Administration and Resources Management. In addition, we interviewed the contractor’s Accounts Receivable Manager, its Finance Manager and the Controller at the contractor’s location to regarding supporting documentation and to billing procedures.

To make our determinations, we used a judgmental sampling technique for invoice and task order selection to select a total of 10 invoices. The criteria used in the selection process were based on the 10 highest invoiced amounts, ensuring that only one invoice per task order was selected for review. We also reviewed the subsequent task order file for each of the invoices we selected. The following invoices and subsequent task orders were selected:

**Table 1: Task order and invoices sampled**

<b>Task Order</b>	<b>Invoice Number</b>	<b>Invoiced Amount</b>
4	3	\$30,964.87
37	8	45,765.12
4059	1	48,371.19
47	8	59,848.37
48	10	61,932.09
22	6	62,717.63
58	2	69,311.07
2	5	86,160.81
38	7	103,796.39
1	12	165,351.32
<b>Subtotal</b>		<b>\$734,218.86</b>

Source: OIG analysis of contract data.

## Chapter 2

### Region 7 Not Ensuring Costs Are Billed Correctly

Region 7 did not ensure that costs under its START contract were billed in accordance with contract terms and conditions. Specifically, we found that:

- Contractor invoices were not sufficiently reviewed.
- Monthly progress reports did not meet contract requirements.
- Invoices contained items that were double-billed or were unallowable.
- Staffing plans were not received as required.
- An annual invoice review was not done timely and lacked supporting documents.
- Adjustment vouchers were not submitted timely.

The START contract contains numerous clauses that stipulate the terms and conditions associated with the contract. The issues identified in this audit generally occurred because Region 7 personnel were not familiar with the contract's terms and conditions, did not conduct the necessary reviews, or did not receive necessary documentation from the contractor. As a result, Region 7 was unable to adequately review invoices and other documentation to determine whether costs were allowable, allocable and reasonable. In total we identified \$82,322 of billed costs that were not allowable. This amount represents a small portion of unallowable costs being billed.

### Region 7 Did Not Sufficiently Review Contractor Invoices

The review of invoices is a critical function impacting the management of public funds. Each year the EPA pays out more than \$1.5 billion dollars to contractors<sup>1</sup> and, per EPA guidance, POs have primary responsibility for verifying compliance with invoice requirements. The Invoice Review & Approval Desk Guide contains checklists that help those responsible in the process perform an adequate review. Accordingly, employees involved in invoice reviews must (1) review contract invoices thoroughly, (2) process invoices in a timely manner and (3) maintain records of their invoice reviews and actions taken as a result of the reviews.

#### ***Submitted Invoices Not in Compliance With Contract Terms***

Region 7's START contract specifically states that in order for an invoice to be considered properly submitted, the invoice must meet contract requirements. The

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<sup>1</sup> Payment to a contractor implies work is progressing according to the contract and performance must be monitored through the reviews of the work plans, project or staffing plans, monthly progress reports, and invoices to assure the government receives what it has paid for.

contract provides specific instructions on how the contractor shall prepare a contract-level invoice or request for contract financing payment. It also lists categories of cost for which schedules are required as supporting documentation.

During our review of invoices, we determined that the PO and TOPOs did not adequately review contractor invoices on the Region 7 START contract. For all 10 invoices we reviewed, the required supporting schedules for subcontract costs, other direct costs (ODCs), equipment and travel were not provided. These schedules provide the details (i.e., quantities, unit pricing) that would allow the POs and TOPOs to perform an adequate review of the costs being billed. In addition, Region 7 staff did not use prescribed checklists that would have facilitated effective invoice reviews.

**Table 2: OIG analysis of invoice data submitted**

Invoice Preparation Requirements	Submitted
Direct Labor – identify by labor category the number of hours, fixed hourly rates and total dollars billed for the period in the invoice.	Yes
Subcontracts - by subcontractor, provide detailed supporting schedules of each element of cost as provided herein for prime contract costs.	No
Other Direct Costs - identify by item the quantities, unit prices and total dollars billed.	No
Indirect Cost Rates – identify by cost center, the indirect cost rate, the period and the cost base to which it is applied.	Yes
Consultants – by consultant, detailed supporting schedules of each element of cost.	N/A
Contractor Acquired Equipment - identify by item the quantities, unit prices and total dollars billed.	No
Contractor Acquired Software – identify by item the quantities, unit prices and total dollars billed.	N/A
Travel - identify by trip, the number of travelers, the duration of travel, the point of origin, destination, purpose of trip, transportation by unit price, per diem rates on daily basis, and total dollars billed.	No

Source: Region 7 START Contract Attachment J and OIG analysis.

The invoices were not in compliance with contract terms because agency staff responsible for invoicing functions were not familiar with the contract terms. As a result, the staff were generally unaware of the specific invoicing requirements as well as the checklists available for invoice reviews.

***Region 7 Unable to Determine Whether Costs Are Accurate and Reasonable***

Performing adequate invoice reviews is a critical function that must be performed well for the stewardship of taxpayer dollars. The omitted schedules would allow a reviewer to verify or question costs being submitted. Without these schedules, Region 7 cannot adequately review the invoices and determine whether the costs are accurate and reasonable.

The contractor's loaded labor rates include a program management factor that includes costs for invoice preparation. Therefore, Region 7 paid the contractor to provide these schedules but was not receiving them. The contractor's proposal estimated that the costs associated with invoice preparation would be approximately \$19,000 annually. We are unable to determine an exact amount associated with the schedule preparation since the invoice preparation costs are included in the loaded labor rates as part of the program management factor, and because the schedules are only a portion of the invoice preparation costs.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

1. Require the PO and TOPOs assigned to the Region 7 START contract use the checklists contained in the EPA's Invoice Review & Approval Desk Guide.
2. Require the PO to notify the contractor regarding the required schedules and ensure that all are received with the contractor's invoices.

## **Monthly Progress Reports Did Not Meet Contract Requirements**

Almost all EPA contracts require that contractors submit a monthly progress report along with an invoice. The monthly progress report serves the following purposes:

- Assists in monitoring technical progress.
- Assists in reviewing invoices and monitoring the financial status of the project by comparing hours and costs against the technical activity.
- Assists in monitoring the hours used by labor category and comparing it against the technical activity and costs being invoiced.
- Supports an audit trail of work performed.

According to EPA policy, the PO has primary responsibility for verifying compliance with monthly progress report requirements.

### ***Region 7 Is Paying for Monthly Progress Reports Even Though the Reports Lack Details Outlined in the Contract***

The contractor is not submitting monthly progress reports in accordance with contract requirements. In reviewing the progress report for August 2014, we determined that 14 out of the 22 items required in the monthly progress report, such as percentage of tasks completed and list of outstanding actions, were not being provided.<sup>2</sup> The preparation of the monthly progress reports was included in

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<sup>2</sup> See Appendix A for a complete listing of the 22 required items and our analysis of those items using the August 2014 progress report.

the program management allocation, which was applied to the loaded labor rates in the contract as a percentage of the costs associated with its preparation. Therefore, Region 7 is paying for the 14 items not being provided in the monthly progress reports. The contractor's proposal estimated the costs associated with contract level required reports, of which the monthly progress report is one of many required. However, we were unable to isolate the exact amount associated with the progress report since it is one of numerous required reports and the preparation costs are included in the loaded labor rates as part of the program management factor. Because the PO was not familiar with the terms and conditions of the contract, the PO did not know the preparation of the reports was included in the loaded labor rates and also was unaware of all the required items detailed in the contract for monthly progress reports. As a result, Region 7 is not receiving valuable information regarding contract performance.

### ***Recommendation***

We recommend that the Regional Administrator, Region 7:

3. Require the PO to notify the contractor of the required monthly progress report elements, and ensure that the contractor begins submitting all required elements.

## **Contractor Billings Included Double-Billed, Reclassified and Noncompliant Items**

Our review of 10 invoices revealed that contractor billings included double-billed items, reclassified items and billings for employees that did not meet contract requirements. According to the EPA's Invoice Review & Approval Desk Guide, dated July 2014, TOPOs are responsible for reviewing the allocability, allowability and reasonableness of invoiced costs, and compliance with contract terms and approved rates. The PO is responsible for reviewing the overall contract invoice to ensure contract compliance, including recalculating amounts and verifying indirect rates and contract ceilings. POs also provide assistance to TOPOs with invoice review responsibilities. This assistance includes providing TOPOs with the latest rate and cost information. The desk guide provides checklists for the POs and TOPOs to use during invoice reviews.

### ***Double-Billings***

We found four instances of double-billing totaling approximately \$1,320. The amounts relate to the purchase of Tyvex suits, gloves and air cartridges that the contractor had already included as part of its program management factor and had been added to the loaded labor rates. Therefore, these items were already paid for as part of the loaded labor rates and should not have been billed again as an ODC.

### **Reclassified Items**

The contractor was billing costs under different categories than it was accumulating them in its accounting system. The different categories of costs that were being reclassified were travel, ODCs, equipment and subcontracts. Differences occurred when costs were reclassified from or to the subcontracts category, since subcontracts do not receive G&A per the contractor's accounting practices, while other categories do have G&A applied to them. For the 10 invoices we reviewed, we found five instances (all on one invoice) where costs were moved from or to the subcontract category.

**Table 3: Reclassification of subcontract costs**

<b>Description of item</b>	<b>Classified in accounting system</b>	<b>Billed as</b>	<b>Amount</b>
Subcontractor A	Materials/Equipment	Subcontracts	\$131.83
Subcontractor B	Materials/Equipment	Subcontracts	9,490.95
Subcontractor C	Subcontractor	Equipment	2,674.00
Subcontractor C	Subcontractor	Equipment	1,817.11
Subcontractor C	Subcontractor	Equipment	430.00

Source: OIG analysis of contractor data.

The contractor was billing Subcontractor C as equipment based on the rationale that the subcontractor does not provide labor. However, FAR 3.502-1 defines a subcontract as a contract or contractual action entered into by a prime contractor or subcontractor for the purposes of obtaining supplies, materials, equipment or services of any kind under the prime contract. Subcontractor is defined in the FAR section, in part, as any person, other than the prime contractor, who offers to furnish or furnishes any supplies, materials, equipment or services of any kind under a prime contract or a subcontract entered in connection with such a contract. In our opinion, the contractual relationship between the contractor and subcontractor meets the definition of a subcontract per FAR 3.502-1 and should have been billed as a subcontract and not as equipment. Furthermore, the subcontractor was proposed as a "subcontractor" in the prime contractor's proposal and consequently, should be billed as such. As a result of the reclassification of Subcontractor C, we determined that Region 7 paid \$2,236 of unallowable G&A costs.

### **Billings for Employees Not Meeting Contract Requirements**

Two of the eight employees we reviewed who were billed on the contract did not meet the qualification requirements as outlined in the contract. The contract administration category requires a college degree and 5 years of experience. The program manager category requires a bachelor's degree and 10 years of experience in field-related activities, a Certified Hazardous Materials Manager certification, and a Professional Engineer or Professional Geologist license. We found one contract administration employee who did not have a college degree and one program manager who did not have a required certification and license

for the Professional Engineer or Professional Geologist positions and Certified Hazardous Materials Manager designation. The amounts billed for these employees was \$73,971 as of February 4, 2015.

### ***Lack of Awareness and Adequate Review Led to Mistakes***

Region 7 is not adequately reviewing invoices to ensure costs billed are reasonable and in accordance with contract terms and conditions, and not reviewing the qualifications of contractors being billed on the START contract. The TOPOs and the PO we interviewed were not aware of the Invoice Review & Approval Desk Guide and were not aware of the invoice review checklists included in the guide. In addition, the PO was not familiar with the terms of the contract and the schedules that were required to be submitted with each invoice. Since the EPA was not receiving the supporting schedules containing detailed information on subcontract costs, other direct costs, equipment and travel, it did not have the information it needs to identify billing issues like those described above.

These conditions also occurred because the contractor does not appear to have a specific policy with regard to the classification of subcontract costs, and does not have adequate controls regarding billing costs in accordance with its accounting system and practices. A discussion with the contractor's Controller revealed that the different classifications are occurring because the financial manager making changes for billing purposes is not following through and requesting to have the items reclassified in the accounting system.

Because the contractor is not reclassifying costs within its accounting system to match its billed costs, the amounts billed could not be reconciled to the backup data since the contractor is making manual adjustments for billing purposes. While the differences were not material, the differences were enough that we do not believe they were due to rounding. Moreover, the fact that the amounts cannot be precisely reconciled casts doubt about the overall accuracy of the contractor's billings.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

4. Require the CO to recover the \$1,320 related to the double-billing of Tyvex suits, gloves and air cartridges, and review all other billings on the contract to identify other double-billings and recover any identified costs.
5. Require the CO to require the contractor to begin billing Subcontractor C immediately as a subcontractor, consistent with how the costs were proposed and the definition of a subcontractor per the FAR.
6. Require the CO to recover the \$2,236 of unallowable G&A costs related to Subcontractor C and review all billings from November 2014 to the present and recover any additional G&A billed to the government.

7. Ensure that the two contractor employees who do not meet the contract qualifications no longer work on the START contract in positions they are not qualified for.
8. Require the PO to review the qualifications of all personnel who have been billed on the contract to ensure they meet contract qualifications, and report any that do not meet the qualifications to the CO.
9. Require the CO to recover the \$73,971 of billed costs associated with the unqualified employees as of February 4, 2014, as well as any amounts billed for these employees after that date. The CO should also recover any costs associated with unqualified personnel identified by the PO in implementing Recommendation 8.
10. Provide training to the PO and TOPOs on the EPA's Invoice Review & Approval Desk Guide.

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

11. Require the Office of Acquisition Management to perform a Financial Monitoring Review on the contract to review in detail the contractor's internal billing practices and cost classification policies and procedures.

## **Staffing Plans Not Being Received as Required**

Staffing plans are developed for project management purposes and involve the selecting, assembling and assignment of work to a project team that has the appropriate skill sets to meet the deliverables identified during the project initiation stage. The staffing plan also provides for any non-labor resources such as tools, equipment or processes required by the project team to undertake the assigned tasks. In reviewing our sample of task orders under the START contract, we determined that Region 7 has not been asking for or receiving staffing plans in accordance with contract requirements. Under clause G-2 of the contract, the contractor is required to acknowledge receipt of each order and prepare and forward to the ordering officer within 10 calendar days the proposed staffing plan for accomplishing the assigned task within the period specified.

### ***Region 7 Paying for But Not Receiving Staffing Plans Due to General Unawareness of Contract Requirements***

The PO and CO administering the contract were unaware that the contractor was required to submit staffing plans when Region 7 orders services. Instead of receiving the required plans, the region simply accepts the skill mix the contractor provides. Furthermore, the costs associated with the preparation of the staffing



plans were already being paid for because those costs were included in the contract's loaded labor rates as part of the program management allocation.

As a result of not receiving the staffing plans, the region is not able to determine whether the contractor's skill mix is appropriate to accomplish the tasks ordered, or whether the tasks could be accomplished using junior-level positions. For example, the contractor's original proposal estimated that one junior-level labor category (Gen IT Tech, Jr. Tech) would be used 8 percent of the time, but that labor category was not been used at all. Instead, the contractor had been using the higher-costing senior level category. Therefore, the contractor has the liberty to provide higher-paying labor categories for tasks that lower-priced labor categories could possibly perform.

Additionally, by not requesting—and subsequently not receiving—the staffing plans, Region 7 allowed the contractor to earn additional profits from June 2013 to October 2014 without performing services. Because the costs associated with the staffing plan preparation are included in the loaded labor rates, it is difficult to determine the exact cost associated with the staffing plans. Based on the contractor's proposal, we estimate that Region 7 paid \$4,795 to the contractor for staffing plans that were not received during year one of the contract.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

12. Ensure that Region 7 staff receive and review the staffing plan from the contractor in accordance with the contract.
13. Require the CO to recover \$4,795 related to staffing plans paid for but not received in year one of the contract.
14. Calculate the costs paid out for staffing plans that were not received for year two and recover that amount.

## **Region's Annual Invoice Reviews Lacking**

The CO did not conduct an annual invoice review for the START contract during year one of the contract. The contract was awarded in June 2013, and our audit began in August 2014, indicating that at least one annual invoice review should have been performed by the beginning of our audit. After starting the audit, Region 7 performed an annual invoice review and provided the completed checklist along with the invoice; however, when we requested the file to evaluate the adequacy of the review, the CO could not provide supporting documents that a thorough review had been conducted. The CO stated he did not request backup information from the contractor to perform his review, and only used the invoice itself. Since the invoice did not contain many of the required schedules—such as a

listing of the ODCs, equipment, etc. (see *Region Did Not Sufficiently Review Contractor Invoices* above)—an adequate review would not have been possible.

The lack of annual invoice reviews on Region 7 contracts has been identified in the past in both an OIG audit and an EPA Contract Management Assessment Program (CMAP) review. EPA OIG Report No. 11-P-0217, *Hotline Allegations Unsubstantiated, but Region 7 Contract Administration and Award Issues Identified*,<sup>3</sup> issued May 4, 2011, reported annual invoice reviews were not performed for the base and option period of contract EP-R7-08-15. Similarly, a CMAP review of Region 7's contracting office, performed in June 2013, noted issues with annual invoice reviews. Specifically, the CMAP review of Region 7's files revealed a vulnerability in contract administration based on the fact that none of the four files assessed contained documentation that the annual invoice reviews were completed.

The Contracts Management Manual, Section 11.2, which was in effect through September 2014, states that the CO is responsible for conducting periodic monitoring of processed invoices to ensure the contractor and contracting officer's representatives are fulfilling their roles properly. This periodic monitoring must be at the level of frequency necessary to ensure all invoice elements are charged properly. Periodic monitoring may include at least one detailed review of an invoice on each contract each year. However, for many contract types, one review may not be sufficient. According to the policy, in these instances, if more frequent monitoring is required to ensure proper invoice approval, the CO must conduct additional invoice reviews.

In October 2014, the EPA instituted the EPA Acquisition Guide by combining the Acquisition Handbook and the Contracts Management Manual. The guide, Section 32.9.1, as well as the EPA's Invoice Review and Approval Desk Guide, recommend that the CO perform these reviews on at least a quarterly basis.

The OIG determined that Region 7's management is not emphasizing annual invoice reviews and holding contracting officers accountable for performing them. In response to the OIG audit report issued in 2011, Region 7 stated that it would develop and implement a process designed to ensure that COs conduct annual invoice reviews, and Region 7 modified its Quality Assurance Plan Checklist to include a confirmation of the CO's annual invoice review. We requested evidence of the Quality Assessment Plan reviews, but Region 7 could not provide evidence that the reviews were performed.

The CMAP review recommended that Region 7 ascertain whether the root cause of the lack of annual invoice reviews is a matter of not correctly filing or not conducting the reviews. The review mandated that if the issue is determined to be a matter of not correctly filing the reviews, Region 7 shall develop standard operating procedures to ensure that invoice reviews are included in the official contract file. The review continued that if the issue is a matter of not conducting the reviews,

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<sup>3</sup> <http://www.epa.gov/oig/reports/2011/20110504-11-P-0217.pdf>.

Region 7 shall conduct training on the proper procedures for annual invoice reviews with an emphasis on why the reviews are important. Region 7 conducted the training in April 2014, but the lack of annual invoice reviews appears to be a recurring issue for Region 7.

The lack of annual invoice reviews increases the risk that overbillings may occur and not be detected timely. As noted earlier, our review of invoices noted the numerous issues that likely would be discovered if the CO conducted the annual invoice reviews.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

15. Conduct training on the proper procedures for performing annual invoice reviews.
16. Require the CO for the Region 7 START contract to perform quarterly invoice reviews as recommended in the EPAAG and the Invoice Review & Approval Desk Guide.
17. Perform a review of all contracts administered by Region 7, evaluate the risks associated with them, and implement quarterly CO invoice reviews of contracts deemed to be of a higher risk.
18. Develop and implement a management internal control to ensure CO invoice reviews are being conducted.

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

19. Conduct a follow-up CMAP review of Region 7 to ensure corrective actions have been implemented.

### **Adjustment Vouchers Not Submitted Timely**

Adjustment vouchers reflect the negotiated indirect cost rate between the prime contractor and cognizant federal agency. Once the indirect cost rate is negotiated, prime contractors submit vouchers that reflect the difference between the billed indirect costs and the indirect costs resulting from the negotiated agreement. Per EPA policy, the contractor is required to submit these vouchers within 60 days from the date of the signed agreement. The policy also establishes procedures and identifies the roles and responsibilities of EPA staff when processing indirect cost rate agreements. For example, financial analysis COs are responsible for distributing the indirect rate agreements to both contractors and COs. In turn, 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. At that point in the process, the CO, once informed that the adjustment voucher has not been received, is responsible for follow-up action with the contractor.

During the course of our audit, we determined that the required adjustment voucher for the START contract was submitted 238 days after the required 60-day timeframe for newly negotiated billing rates. The total amount of the adjustment voucher was approximately \$559, which the contractor owed to the government.

**Table 4: Adjustment voucher – days late calculation**

Date of signed rate agreement	Date due for submission	Date submission received	Days late
2/27/14	4/28/14	12/22/14	238 days

Source: OIG analysis of EPA data.

### ***Insufficient Controls Led to Untimely Submittals***

The adjusting voucher was not submitted timely due to a lack of controls in the overall process. For example, there is no formal tracking system to ensure COs provide the negotiated billing rates to the POs, or to track whether the contractor has submitted an adjustment voucher within the 60-day timeframe. We determined that neither the CO nor PO notified the contractor that the adjustment voucher was past due. In fact, the PO was not even aware of his responsibility to monitor the receipt of adjustment vouchers. Additionally, the CO did not provide the newly negotiated rate letter to the PO and, as a result, there was no way for the PO to have known that the billing rates had changed.

There appears to be a systemic breakdown in the EPA’s overall management of this process, as highlighted in two previously issued EPA OIG audit reports.<sup>4</sup> Both reports noted that adjustment vouchers are not being submitted timely. As a result, Region 7, is allowing contractors to have an interest-free loan when money is owed to the government.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

20. Develop a tracking system to ensure that the CO distributes the indirect rate agreement to the PO and that the contractor’s adjustment vouchers are received timely.

<sup>4</sup> EPA OIG Report No. 10-P-0075, *EPA Does Not Always Receive Adjustment Vouchers from Contractors* (<http://www.epa.gov/oig/reports/2010/20100308-10-P-0075.pdf>), March 8, 2010; and EPA OIG Report No. 14-P-0109, *Internal Controls Needed to Control Costs of Emergency and Rapid Response Services Contracts as Exemplified in Region 6* (<http://www.epa.gov/oig/reports/2014/20140204-14-P-0109.pdf>), February 4, 2014.

21. Notify all Region 7 POs of adjustment voucher policies and procedures, emphasizing the POs' responsibility in the process.

## **Agency Response to Recommendations and OIG Evaluation**

Region 7 and the Office of Administration and Resources Management agreed to take corrective action in response to all recommendations except for Recommendations 11, 16, and 17. The Office of Administration and Resources Management partially agreed to Recommendation 11, while Region 7 partially agreed to Recommendation 16 and 17. Both Region 7 and the Office of Administration and Resources Management provided a proposed modification to the recommendations along with the corrective actions and planned completion dates. We believe that the proposed corrective actions, along with the planned completion dates, meet the intent of the recommendations. The complete agency response to the draft audit report is in Appendix B.

# Chapter 3

## EPA Did Not Monitor Contractor for Compliance With Terms and Conditions of Contract

EPA Region 7 did not monitor the START contractor for compliance with the terms and conditions of the contract. Specifically, we found that:

- The CO did not appoint contracting officer’s representatives (CORs)<sup>5</sup> for task orders timely.
- The statements of work (SOWs) were too general and Independent Government Cost Estimates (IGCEs) lacked details.
- The contract’s clauses were incomplete, repetitive or contradictory.

The FAR and various EPA guidelines—including the Contracts Management Manual—provide guidance for contract administration. However, regional staff used unpromulgated contract clauses and did not always apply the guidance when administering START contract. As a result, Region 7 is vulnerable to misinterpretations of contract clauses and does not have IGCEs that can be verified and validated by a third party. Further, without appointing CORs to act on behalf of the CO, the region is not safeguarding its contractual interests.

### Contracting Officer Did Not Timely Appoint CORs for the Contract

To perform the duties of a COR, the potential COR’s immediate supervisor submits a “Nomination of the Contracting Officer’s Representatives” form to the CO. The CO is to then respond to the nomination in writing by either appointing the nominee as a COR or stating why the nominee was not appointed. Once appointed, the COR must have a copy of the CO’s appointment letter and other documents describing his or her duties and responsibilities in his or her file.

As of August 2014, there were 79 task orders issued under Region 7’s START contract, with 30 staff members designated as task order CORs. In reviewing the contract and project files, we found that 13 of the 30 staff members performing task order COR duties were not nominated. Further, the CO never appointed any of the 30 staff members, even though 17 of them had been formerly nominated as early as June 2013. The CO indicated the 30 staff members acting as task order CORs were never formerly appointed because there was a delay in the process.

At the contract level, there were three contract-level CORs who were officially appointed. However, one COR’s appointment letter was not in the project file as required by the FAR because the COR was unaware of the FAR requirement.

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<sup>5</sup> COR is a broad term used to refer to POs and TOPOs.

By not appointing CORs to act on his behalf, the CO is not adequately safeguarding the interests of the United States. Additionally, the CORs may not know the extent and limitations of their authority to act on behalf of the CO, and also may not understand that they are personally liable for unauthorized acts.

### ***Recommendations***

We recommend that the Regional Administrator, Region 7:

22. Require the CO to identify the CORs assigned to the START contract and ensure that they are properly nominated and appointed.
23. Develop and implement controls to ensure that future nominees are appointed in a timely fashion.
24. Disseminate the file requirements for maintaining a CORs file for each contract, emphasizing that the file must include a copy of the CO's letter of designation and other documents describing the CORs' duties and responsibilities.

## **SOWs Too General and IGCEs Lack Details**

The SOW is the central part of the procurement. It is a written description of the contractual requirements for supplies or services that the government requires from the contractor. It delineates the tasks, describes essential technical needs or requirements that the contractor must fulfill, provides the schedule the contractor must meet, sets forth the required deliverables, and provides the standards that the government will use to determine that the requirements have been met. Additionally, the SOW is the basis for the preparation of the IGCE. The IGCE is based on the individual elements of cost estimated for each of the components and sub-components of the SOW.

The narrative for six of the 10 task orders we reviewed were general in nature. In our opinion, the scopes lacked the needed details for the contractor to perform the tasks without considerable additional guidance. For example, one task order referred to a small section of the contract's overall scope and then lists vague tasks such as conducting regular inspections, collecting samples as needed, developing reports as directed, and performing other activities as directed.

The SOW's descriptions are vague because the program office prefers to have general descriptions so that revisions to the SOW do not have to be made when requirements change. By writing these vague scopes, the program staff can stay within the scope at all times and include additional unforeseen tasks. However, due to the lack of scope specificity, it is our opinion that the contractor cannot develop a reasonable staffing plan for the work being required under the START

contract. Further, the lack of a detailed scope can cause communication issues with contractors and increase costs due to disruptions in the project's schedule.

### ***IGCEs Lack Pertinent Assumptions and Descriptions for Calculations***

EPA's *Guide for Preparing Independent Government Cost Estimates*, dated June 2010, provides guidance to EPA program offices on how to prepare IGCEs. Section 3.15 states that estimates should be documented to show all parameters, assumptions, descriptions, methods and calculations used to develop the IGCE. The documentation should identify sources for data, explain why particular methods and data sets were chosen, and why these choices are reasonable. The documentation should also allow any user to trace the data, calculations, modeling assumptions, and rationale back to the source documents for verification and validation. We found that Region 7 is not documenting the rationale and assumptions used in developing its IGCEs for tasks under the START contract. In reviewing 10 IGCEs, we determined that all 10 lacked the supporting rationale, assumptions and methods on how the calculations were developed. By not including the rationale, assumptions and methods used for developing the IGCE, it is difficult for a third party to verify and validate the IGCE.

### ***Recommendation***

We recommend that the Regional Administrator, Region 7:

25. Provide training to Region 7 program staff on IGCE guidance and how to write a SOW.

## **Contract Clauses Incomplete, Repetitive or Contradictory**

A contract clause is a specific provision or section within a written contract. Each clause addresses a specific aspect related to the overall subject matter of the agreement and contains or makes reference to general contract clauses, such as termination for default, termination for convenience, changes, payments, and inspection. Other clauses are more unique to the contract and include data or information such as the incorporation of contractor plans and reports of work.

In reviewing Region 7's START contract, we determined that several contract clauses contained blank fields or missing data that should have been populated with such information as current G&A rates, minimum and maximum ordering amounts, the effective period of the contract, and consent to subcontractors. The FAR instructs that fill-in information be inserted in the provision or clause.

In addition to the lack of information in the contract, there were several clauses that were repetitive. For example, clauses G-1 and G-10 were essentially the same except that G-1 is an unpromulgated clause while G-10 is an official agencywide clause. Both of these clauses were for submission of invoices.



In addition to the unnecessary duplication, some clauses were contradictory in nature. For example, clause G-2 (an EPA Acquisition Regulation clause) and G-8 (an unpromulgated clause) were contradictory because G-2 states that the CO may order services and in the event of an emergency as warranted and an On Scene Coordinator may also order services. However, G-2 does not specify who is a warranted On Scene Coordinator and does not provide a listing. On the other hand, clause G-8 specifically states that no On Scene Coordinator can order services unless there is a catastrophic event, and it provides a listing of On Scene Coordinators via a URL (although the URL is inactive). We noted other inconsistencies. For example, G-2 refers to delivery orders while G-8 refers to both task orders and delivery orders. Region 7's START contract is a task order contract since the requirement is for services and not the delivery of supplies. The FAR clearly differentiates between task orders and delivery orders; it defines a delivery order as an order that provides for supplies during the period of the contract, and defines a task order as an order that provides for the performance of tasks during the period of the contract. Since both clauses G-2 and G-8 refer to delivery orders, both clauses are incorrect.

Additionally, one of the requirements under clause G-2 is for the contractor to submit staffing plans. Staffing plans are developed for project management purposes and involve the selecting, assembling and assignment of work to a project team that has the appropriate skill set to meet the deliverables identified during the project initiation stage. The staffing plan also provides for any non-labor resources such as tools, equipment or processes required by the project team to undertake the assigned tasks. However, because a delivery order is for purchasing supplies, the requirement of a staffing plan under this clause is illogical. In our opinion, the requirement of the contractor submitting staffing plans should have been incorporated into clause G-8.

### ***Review Process and Rush to Award a Factor in Clauses Being Repetitive, Contradictory and Incomplete***

The awarding CO stated that there was not much time to prepare the contract since the previous contract had expired and needed to be awarded quickly. For the repetitive and contradictory clauses, we were told that Region 7 selected EPA Acquisition Regulation clauses as well as unpromulgated clauses because the unpromulgated clauses can be modified based on the acquisition's unique requirements, whereas EPA Acquisition Regulation clauses cannot.<sup>6</sup>

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<sup>6</sup> The Office of Administration and Resources Management's Office of Acquisition Management has identified the issues with clauses and has an ongoing initiative to centralize all clauses in the EPA Acquisition System.

### ***Vulnerabilities With Contract Could Potentially Have Performance Issues***

A contract clause is a specific provision or section within a written contract. Each clause in a contract addresses a specific aspect related to the performance of the contract. Contract clauses are aimed at clearly defining the duties, rights and privileges that each party has under the contract terms. By awarding contracts that have contradictory, repetitive and missing data, contractors and Region 7 staff are vulnerable to misinterpretations and, consequently, may experience inadequate contract performance.

### ***Recommendation***

We recommend that the Regional Administrator, Region 7

26. Require the CO to review the contract and include all missing information, eliminate repetitive clauses and make corrections to inaccurate clauses.

## **Agency Response to Recommendations and OIG Evaluation**

Region 7 agreed to take corrective action in response to all recommendations and provided acceptable completion dates. Region 7 has also implemented corrective actions for Recommendations 22, 24, and 25. We believe that all of the proposed corrective actions, along with the planned completion dates, meet the intent of the recommendations. The complete agency response to the draft audit report is in Appendix B.

## **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
1	7	Require the PO and TOPOs assigned to the Region 7 START contract use the checklists contained in the EPA's Invoice Review & Approval Desk Guide.	O	Regional Administrator, Region 7	9/30/15		
2	7	Require the PO to notify the contractor regarding the required schedules and ensure that all are received with the contractor's invoices.	O	Regional Administrator, Region 7	12/31/16		
3	8	Require the PO to notify the contractor of the required monthly progress report elements, and ensure that the contractor begins submitting all required elements.	O	Regional Administrator, Region 7	12/31/16		
4	10	Require the CO to recover the \$1,320 related to the double-billing of Tyvex suits, gloves and air cartridges, and review all other billings on the contract to identify other double-billings and recover any identified costs.	O	Regional Administrator, Region 7	12/31/16	\$1.3	\$1.3
5	10	Require the CO to require the contractor to begin billing Subcontractor C immediately as a subcontractor, consistent with how the costs were proposed and the definition of a subcontractor per the FAR.	O	Regional Administrator, Region 7	9/30/15		
6	10	Require the CO to recover the \$2,236 of unallowable G&A costs related to Subcontractor C and review all billings from November 2014 to the present and recover any additional G&A billed to the government.	O	Regional Administrator, Region 7	12/31/16	\$2.2	\$2.2
7	11	Ensure that the two contractor employees who do not meet the contract qualifications no longer work on the START contract in positions they are not qualified for.	O	Regional Administrator, Region 7	9/30/15		
8	11	Require the PO to review the qualifications of all personnel who have been billed on the contract to ensure they meet contract qualifications, and report any who do not meet the qualifications to the CO.	O	Regional Administrator, Region 7	12/31/16		
9	11	Require the CO to recover the \$73,971 of billed costs associated with the unqualified employees as of February 4, 2014, as well as any amounts billed for these employees after that date. The CO should also recover any costs associated with unqualified personnel identified by the PO in implementing Recommendation 8.	O	Regional Administrator, Region 7	12/31/16	\$74.0	\$74.0
10	11	Provide training to the PO and TOPOs on the EPA's Invoice Review & Approval Desk Guide.	O	Regional Administrator, Region 7	9/30/15		
11	11	Require the Office of Acquisition Management to perform a Financial Monitoring Review on the contract to review in detail the contractor's internal billing practices and cost classification policies and procedures.	O	Assistant Administrator for Administration and Resources Management	12/31/16		
12	12	Ensure that Region 7 staff receive and review the staffing plan from the contractor in accordance with the contract.	O	Regional Administrator, Region 7	12/31/16		

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
13	12	Require the CO to recover \$4,795 related to staffing plans paid for but not received in year one of the contract.	O	Regional Administrator, Region 7	12/31/16	\$4.8	\$4.8
14	12	Calculate the costs paid out for staffing plans that were not received for year two and recover that amount.	O	Regional Administrator, Region 7	12/31/16		
15	14	Conduct training on the proper procedures for performing annual invoice reviews.	O	Regional Administrator, Region 7	9/30/15		
16	14	Require the CO for the Region 7 START contract to perform quarterly invoice reviews as recommended in the EPAAG and the Invoice Review & Approval Desk Guide.	O	Regional Administrator, Region 7	12/31/16		
17	14	Perform a review of all contracts administered by Region 7, evaluate the risks associated with them, and implement quarterly CO invoice reviews of contracts deemed to be of a higher risk.	O	Regional Administrator, Region 7	12/31/16		
18	14	Develop and implement a management internal control to ensure CO invoice reviews are being conducted.	O	Regional Administrator, Region 7	12/31/16		
19	14	Conduct a follow-up CMAP review of Region 7 to ensure corrective actions have been implemented.	O	Assistant Administrator for Administration and Resources Management	9/30/15		
20	15	Develop a tracking system to ensure that the CO distributes the indirect rate agreement to the PO and that the contractor's adjustment vouchers are received timely.	O	Regional Administrator, Region 7	9/30/15		
21	16	Notify all Region 7 POs of adjustment voucher policies and procedures, emphasizing the PO's responsibility in the process.	O	Regional Administrator, Region 7	9/30/15		
22	18	Require the CO to identify the CORs assigned to the START contract and ensure that they are properly nominated and appointed.	C	Regional Administrator, Region 7	6/30/15		
23	18	Develop and implement controls to ensure that future nominees are appointed in a timely fashion.	O	Regional Administrator, Region 7	9/30/15		
24	18	Disseminate the file requirements for maintaining a CORs file for each contract, emphasizing that the file must include a copy of the CO's letter of designation and other documents describing the CORs' duties and responsibilities.	C	Regional Administrator, Region 7	3/31/15		
25	19	Provide training to Region 7 program staff on IGCE guidance and how to write a SOW.	C	Regional Administrator, Region 7	3/31/15		
26	21	Require the CO to review the contract and include all missing information, eliminate repetitive clauses and make corrections to inaccurate clauses.	O	Regional Administrator, Region 7	6/30/15		

<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 unresolved with resolution efforts in progress.

## **Monthly Progress Report Requirements and OIG Analysis**

Contract Reference	Requirement	Provided?
F.6 (a)	...If the work is ordered using work assignments or delivery orders, include the estimated percentage of task completed during the Reporting period for each work assignment or delivery order.	No
F.6 (b)	Specific discussions shall include difficulties encountered and remedial action taken during the reporting period, and anticipated activity with a schedule of deliverables for the subsequent reporting period.	No
F.6 (c)	The Contractor shall provide a list of outstanding actions awaiting Contracting Officer authorization, noted with the corresponding work assignment, such as subcontractor/consultant consents, overtime approvals, and work plan approvals.	No
F.6 (d)(1)	For the current reporting period, display the amount claimed.	Yes
F.6 (d)(2)	For the cumulative period and the cumulative contract life display: the amount obligated, amount originally invoiced, amount paid, amount suspended, amount disallowed, and remaining approved amount. The remaining approved amount is defined as the total obligated amount, less the total amount originally invoiced, plus total amount disallowed.	Yes
F.6 (d)(3)(i)	A list of employees, their labor categories, and the numbers of hours worked for the reporting period.	Yes
F.6(d)(3)(ii)	For the current reporting period, display the expended direct labor hours and costs broken out by EPA contract labor hour category for the prime contractor and each subcontractor and consultant.	Yes
F.6(d)(3)(iii)	For the cumulative contract period and the cumulative contract life display: the negotiated, expended and remaining direct labor hours and costs broken out by EPA contract labor hour category for the prime contractor, and each subcontractor and consultant.	No
F.6(d)(3)(iv)	Display the estimated direct labor hours and costs to be expended during the next reporting period.	No
F.6(d)(4)	Display the current dollar ceilings in the contract, net amount invoiced, and remaining amounts for the following categories: Direct labor hours, total estimated cost, award fee pool (if applicable), subcontracts by individual subcontractor, travel, program management, and Other Direct Costs (ODCs).	No
F.6(d)(5)	Unbilled allowable costs. Display the total costs incurred but unbilled for the current reporting period and cumulative for the contract.	No
F.6(d)(6)	Average cost of direct labor. Compare the actual average cost per hour to date with the average cost per hour of the approved work plans for the current contract period.	No
F.6(e)(1)	For the current period, display the amount claimed.	Yes

Contract Reference	Requirement	Provided?
F.6(e)(2)	For the cumulative period display: amount shown on workplan, or latest work assignment/delivery order amendment amount (whichever is later); amount currently claimed; amount paid; amount suspended; amount disallowed; and remaining approved amount. The remaining approved amount is defined as: the workplan amount or latest work assignment or delivery order amount (whichever is later), less total amounts originally invoiced, plus total amount disallowed.	Yes
F.6(e)(3)(i)	A list of employees, their labor categories, and the number of hours worked for the reporting period.	Yes
F.6(e)(3)(ii)	For the current reporting period, display the expended direct labor hours and costs broken out by EPA contract labor hour category for the prime contractor and each subcontractor and consultant.	Yes
F.6(e)(3)(iii)	For the current reporting period, cumulative contract period, and the cumulative contract life display: the negotiated, expended and remaining direct labor hours and costs broken out by EPA contract labor hour category for the prime contractor and each subcontractor and consultant.	No
F.6(e)(3)(iv)	Display the estimated direct labor hours and costs to be expended during the next reporting period.	No
F.6(e)(3)(v)	Display the estimates of remaining direct labor hours and costs required to complete the work assignment or delivery order.	No
F.6(e)(4)	Unbilled allowable costs. Display the total costs incurred but unbilled for the current reporting period and cumulative for the work assignment.	No
F.6(e)(5)	Average cost of direct labor. Display the actual average cost per hour with the cost per hour estimated in the workplan.	No
F.6(e)(6)	A list of deliverables for each work assignment or delivery order during the reporting period.	No

## ***Agency Response to Draft Report and OIG Evaluation***

June 17, 2015

### **MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Report No. OA-FY14-0354  
*Internal Controls Needed to Control Costs of Superfund Technical Assessments & Response Team Contracts, as Exemplified in Region 7, dated May 19, 2015*

**FROM:** Mark Hague  
Acting Regional Administrator

**TO:** Janet Kasper  
Director, Contracts and Assistance Agreement Audits

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

No.	Recommendation	High-Level Intended Corrective Action	Estimated Completion by Quarter and FY
1.	Require the PO and TOPOs assigned to the Region 7 START contract use the checklists contained in the EPA's Invoice Review and Approval Desk Guide.	Region 7 agrees with this recommendation and will require the PO and TOPOs assigned to the START contract to use the checklists contained in the March 13, 2015 Invoice Review and Approval Desk Guide.	4 <sup>th</sup> quarter FY 2015
2.	Require the PO to notify the contractor regarding the required schedules and ensure that all are	Region 7 agrees with this recommendation and will notify the contractor of the missing schedules, listed in Attachment J. Region 7 will validate future receipt of the supporting	1 <sup>st</sup> quarter FY 2016

	received with the contractor's invoice.	schedules for subcontract costs, other direct costs (ODCs), equipment and travel through internal reviews conducted as part of the FMFIA process.	
3.	Require the PO to notify the contractor of the required monthly progress report elements, and ensure that the contractor begins submitting all required elements.	Region 7 agrees with this recommendation and notified the contractor of the required monthly progress reports elements through issuance of contract modification #12, with an effective date of April 6, 2015. Region 7 will ensure the contractor submits all required elements through detailed reviews of the monthly progress reports.	1 <sup>st</sup> quarter FY 2016
4.	Require the CO to recover the \$1,320 related to the double-billing of Tyvex suits, gloves and air cartridges, and review all other billings on the contract to identify other double-billings and recover any identified costs.	Region 7 agrees with this recommendation and will work to recover the \$1,320 related to the double billing of Tyvex suits, gloves and air cartridges identified by the OIG. Region 7 will require the contractor to review its supporting documentation for all ODC's billed on the contract from its inception to the present. The contractor will be required to identify all instances where Tyvex suits, gloves and air cartridges were billed as ODC's, and repay that amount to EPA. The contractor will be required to certify that all double-billings have been identified and repaid.	1 <sup>st</sup> quarter FY 2016
5.	Require the CO to require the contractor to begin billing Subcontractor C immediately as a subcontractor, consistent with how the costs were proposed and the definition of a subcontractor per the FAR.	Region 7 agrees with this recommendation and is preparing a letter directing the contractor to begin billing Subcontractor C as a subcontractor, consistent with how the costs were proposed and the definition of a subcontractor per the FAR.	4 <sup>th</sup> quarter FY 2015
6.	Require the CO to recover the \$2,236 of unallowable G&A costs related to Subcontractor C and review all billings from November 2014 to the present and recover any additional G&A billed to the government.	Region 7 agrees with this recommendation and will work to recover the \$2,236 of unallowable G&A costs billed to EPA through October 2014, related to Subcontractor C. Region 7 will also review the contractor's billings from November 2014 to the present and work to recover any additional unallowable G&A costs billed to EPA related to Subcontractor C.	1 <sup>st</sup> quarter FY 2016
7.	Ensure that the two contractor employees that do not meet the	Region 7 agrees with this recommendation and is preparing a letter that requires the two	4 <sup>th</sup> quarter FY 2015



	contract qualifications, no longer work on the START contract in positions they are not qualified for.	contractor employees OIG identified, who do not meet the contract qualifications, to no longer work on the START contract in positions for which they are not qualified.	
8.	Require the PO to review the qualifications of all personnel who have been billed on the contract to ensure they meet contract qualifications, and report any that do not meet the qualifications to the CO.	Region 7 agrees with this recommendation and will require the contractor provide a report identifying all employees billed under the 6 Key Personnel identified in the contract. Region 7 will require the contractor evaluate each individual against the qualifications and educational requirements cited in the contract. The contractor will quantify the total costs billed for each employee who did not meet the requirements for their position. The contractor will be required to certify that all other employees billed to the 6 Key Personnel identified in the contract did meet the qualifications and educational requirements and were appropriately charged to the contract.	1 <sup>st</sup> quarter FY 2016
9.	Require the CO to recover the \$73,971 of billed costs associated with the unqualified employees as of February 4, 2014, as well as any amounts billed for these employees after that date. The CO should also recover any costs associated with unqualified personnel identified by the PO in implementing recommendation 8.	Region 7 agrees with this recommendation and will work to recover the \$73,971 of billed costs associated with the unqualified employees identified by the OIG, as of February 4, 2014. Region 7 will also work to recover any additional costs identified during the implementation of the corrective action identified for OIG Recommendation 8.	1 <sup>st</sup> quarter FY 2016
10.	Provide training to the PO and TOPOs on the EPA's Invoice Review and Approval Desk Guide.	Region 7 agrees with this recommendation and will provide training to the PO and TOPOs on the EPA Invoice and Approval Desk Guide.	4 <sup>th</sup> quarter FY 2015
11.	OIG Recommendation 11 is addressed to OARM: Require the Office of Acquisition Management to perform a Financial Monitoring Review on the contract to review in detail the contractor's internal billing practices and cost classification policies and procedures.	OARM/OAM partially agrees with this recommendation. OAM acknowledges the value in conducting FMRs, and has conducted three FMRs of this contractor since FY 2011. Based on similar findings among the three FMRs and the audit, OAM believes sufficient audit evidence exists to support the need for the Government to improve invoice reviews, monitoring, and oversight by program, technical, and contracting staff. Accordingly, instead of performing another FMR on the	1 <sup>st</sup> quarter FY 2016

		contractor, OAM proposes to coordinate/collaborate with Region 7 on the implementation of improved procedures and processes in support of better invoice reviews, monitoring, and oversight on the part of the regional staff. Further, OAM will work to ensure procedures are in compliance with OAM's March 13, 2015 Invoice Review Desk Guide, and during the July 2015 CMAT review, OAM will validate Region 7's implementation of any new or revised invoice review policies and procedures.	
12.	Ensure that Region 7 staff receive and review the staffing plan from the contractor in accordance with the contract.	Region 7 agrees with this recommendation and the contractor has been submitting staffing plans since October 2014. Receipt and review of staffing plans will be verified through implementation of the Internal Control Plan Addendum dated June 2015, and staffing plans will be reviewed for consistency with statements of work and independent government costs estimates.	1 <sup>st</sup> quarter FY 2016
13.	Require the CO to recover \$4,795 related to staffing plans paid for but not received in year one of the contract.	Region 7 agrees with this recommendation and will work to recover \$4,795 related to staffing plans paid for but not received in year one of the contract.	1 <sup>st</sup> quarter FY 2016
14.	Calculate the costs paid out for staffing plans that were not received for year two and recover that amount.	Region 7 agrees with this recommendation and will calculate the costs paid out for staffing plans that were not received in year two (prior to October 2014), and will work to recover that amount.	1 <sup>st</sup> quarter FY 2016
15.	Conduct training on the proper procedures for performing annual invoice reviews.	Region 7 agrees with this recommendation and will provide training to the CO's on the proper procedures for performing annual invoice reviews.	4 <sup>th</sup> quarter FY 2015
16.	Require the CO for the Region 7 START contract to perform quarterly invoice reviews as recommended in the EPAAG and the Invoice Review and Approval Desk Guide.	Region 7 partially agrees with this recommendation and proposes that the CO for the Region 7 START contract perform semi-annual invoice reviews as required by the Internal Control Plan Addendum dated June 2015.	1 <sup>st</sup> quarter FY 2016

17.	Perform a review of all contracts administered by Region 7, evaluate the risks associated with them and implement quarterly CO invoice reviews of contracts deemed to be of a higher risk.	Region 7 partially agrees with this recommendation and proposes to review all contracts, evaluate their risks, and implement semi-annual CO invoice reviews of contracts deemed to be of a higher risk.	1 <sup>st</sup> quarter FY 2016
18.	Develop and implement a management internal control to ensure CO invoice reviews are being conducted.	Region 7 agrees with this recommendation and has developed an Internal Control Plan Addendum dated June 2015, that addresses ensuring CO invoice reviews are performed timely.	1 <sup>st</sup> quarter FY 2016
19.	OIG Recommendation 19 is addressed to OARM: Conduct a follow-up CMAP review of Region 7 to ensure corrective actions have been implemented.	OARM/OAM agrees with this recommendation and plans to conduct a follow-on CMAP review of Region 7 the week of July 13, 2015.	4 <sup>th</sup> quarter FY 2015
20.	Develop a tracking system to ensure that the CO distributes the indirect rate agreement to the PO and that the contractor's adjustment vouchers are received timely.	Region 7 agrees with this recommendation and developed a tracking system designed to ensure new indirect rate agreements are provided to the CORs within 5 days of the CO receipt and that adjustment vouchers are submitted in a timely manner.	4 <sup>th</sup> quarter FY 2015
21.	Notify all Region 7 POs of adjustment voucher policies and procedures, emphasizing the PO's responsibility in the process.	Region 7 agrees with this recommendation and will notify Region 7 POs of adjustment voucher policies and procedures and clearly communicate the PO's responsibilities in the process.	4 <sup>th</sup> quarter FY 2015
22.	Require the CO to identify the CORs assigned to the START contract and ensure that they are properly nominated and appointed.	Region 7 agrees with this recommendation and has identified the CORs assigned to the START contract and ensured they are properly nominated and appointed.	3 <sup>rd</sup> quarter FY 2015
23.	Develop and implement controls to ensure that future nominees are appointed in a timely fashion.	Region 7 agrees with this recommendation and highlighted this process in the Internal Control Plan Addendum dated June 2015. Compliance will be validated through implementation of the Internal Control Plan and utilization of the COR Contract File Checklist.	4 <sup>th</sup> quarter FY 2015
24.	Disseminate the file requirements for maintaining a CORs file for each	Region 7 agrees with this recommendation and disseminated the COR Contract File Checklist	2 <sup>nd</sup> quarter FY 2015

	contract, emphasizing that the file must include a copy of the COs letter of designation and other documents describing the CORs duties and responsibilities.	dated May 2012 to the regional CORs. This checklist specifically includes the COR nomination/ appointment form and the COR Appointment Memo.	
25.	Provide training to Region 7 program staff on IGCE guidance and how to write SOWs.	Region 7 agrees with this recommendation and on January 29, 2015, provided contract training to the Superfund TOPOs. Training was given on developing quality Independent Government Costs Estimates and Statements of Work.	2 <sup>nd</sup> quarter FY 2015
26.	Require the CO to review the contract and include all missing information, eliminate repetitive clauses, and make corrections to inaccurate clauses.	Region 7 agrees with this recommendation and issued contract modification #12, with an effective date of April 6, 2015, to add missing information to the contract, eliminate repetitive clauses, and to make corrections to inaccurate clauses.	3 <sup>rd</sup> quarter FY 2015

## ***Distribution***

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