



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA's Alternative Dispute Resolution and Public Involvement Contract Needs Better Management

Report No. 17-P-0380

September 12, 2017

SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEMS OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, & 30			1. REQUISITION NUMBER	FACE 1 OF
2. CONTRACT NO.	3. AWARD EFFECTIVE DATE	4. ORDER NUMBER	5. SOLICITATION NUMBER	6. SOLICITATION ISSUE DATE
EDW008			SIZE STANDARD	
11. DELIVERY FOR FOR DESTINATION UNLESS BLOCK IS MARKED				
TELEPHONE NO				

Paid billings

\$51 million
Alternative Dispute Resolution and Public Involvement Contract

Received services

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Abbreviations

ADR	Alternative Dispute Resolution
CO	Contracting Officer
COR	Contracting Officer's Representative
CPARS	Contractor Performance Assessment Reporting System
EPA	U.S. Environmental Protection Agency
EPAAG	Environmental Protection Agency Acquisition Guide
EPAAR	Environmental Protection Agency Acquisition Regulation
FAR	Federal Acquisition Regulation
G&A	General and Administrative
OAM	Office of Acquisition Management
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	U.S. Office of Personnel Management
PPIRS	Past Performance Information Retrieval System
T&M	Time-and-Material
TOCOR	Task Order Contracting Officer's Representative

Cover photo: Image symbolizing the Alternative Dispute Resolution services contract.
(U.S. General Services Administration, EPA images)

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At a Glance

Why We Did This Audit

We conducted an audit of U.S. Environmental Protection Agency (EPA) Contract No. EP-W-14-020, which procures services in support of the EPA's Alternative Dispute Resolution and Public Involvement activities. The purpose of this audit was to determine whether the EPA receives services and whether costs are billed in accordance with contractual and acquisition requirements.

In June 2014, the EPA awarded Contract No. EP-W-14-020, which is valued at over \$51 million and has a period of performance of 60 months. The objective of this contract is to implement the agency's Alternative Dispute Resolution Policy and Public Involvement Policy. Mediation, facilitation, outreach, coaching and training are among the services procured under this contract.

This report addresses the following:

- *Operating efficiently and effectively.*

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EPA's Alternative Dispute Resolution and Public Involvement Contract Needs Better Management

What We Found

The terms of Contract No. EP-W-14-020 were not in compliance with the Federal Acquisition Regulation (FAR) and the EPA Acquisition Regulation (EPAAR). In addition, some contract deliverables did not comply with contract requirements. Specifically, we identified the following issues during our audit:

- Several contract terms were outdated, contradictory and incomplete. Several required clauses were also missing.
- The contract did not permit firm-fixed-price task orders.
- Monthly progress reports, final reports and invoices were missing some required contract data.

The EPA must provide better assurance that it effectively receives services and correctly pays for billings under this \$51 million contract.

Also, management of Contract No. EP-W-14-020 needs improvement to comply with contractual and acquisition requirements. Specifically, we found the following issues during our audit:

- Four Task Order Contracting Officer's Representatives did not provide written technical direction, as required by the contract and EPAAR.
- In one case, the EPA did not report contractor performance evaluation information in a timely manner, as required by the FAR.
- The Contracting Officer did not perform invoice reviews in a timely manner, as required by the EPA Acquisition Guide.
- The Contracting Officer did not issue the Contracting Officer's Representative appointment memorandum in a timely manner, as required by the FAR and the EPA Acquisition Guide.

These issues occurred due to insufficient oversight.

Recommendations and Planned Agency Corrective Actions

The EPA was proactive in responding to our findings throughout our audit fieldwork. As described in the "Actions Taken" subsections in Chapters 2 and 3, the agency completed actions to correct a majority of the issues we identified.

Consequently, this report makes only three recommendations to the Assistant Administrator for Administration and Resources Management and to the General Counsel. Our recommendations include actions to improve the contract's terms, deliverables, management, oversight and internal controls. The EPA agreed with all three recommendations and provided planned corrective actions and completion dates that meet the intent of the recommendations. As of the publication of this report, corrective actions are pending for Recommendation 1 and are completed for Recommendations 2 and 3.



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

THE INSPECTOR GENERAL

September 12, 2017

MEMORANDUM

SUBJECT: EPA's Alternative Dispute Resolution and Public Involvement Contract
Needs Better Management
Report No. 17-P-0380

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: Kevin Minoli, Acting General Counsel

Donna Vizian, 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). The project number for this audit was OA-FY16-0124. 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.

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 pending implementation of the corrective actions. No final response to this report is required.

We will post this report to our website at www.epa.gov/oig.

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Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) conducted this audit of EPA Contract No. EP-W-14-020 in order to determine whether the EPA receives services and whether costs are billed in accordance with contract and acquisition requirements.

Background

On June 13, 2014, the EPA awarded Contract No. EP-W-14-020 to Systems Research and Applications Corporation. This contract is a fixed rate for services, indefinite delivery/indefinite quantity contract¹ valued at \$51,740,000, with a period of performance of 60 months (5 years). The objective of the contract is to obtain contractor support to implement the EPA's Alternative Dispute Resolution (ADR) Policy and Public Involvement Policy. As of March 2016, the contract had 71 task orders to procure nine primary types of services (see Table 1).

Table 1: Nine primary types of services purchased

Tracking Evaluation Meeting Support	Coaching Training Assessment	Mediation Facilitation Outreach
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Source: OIG analysis.

EPA's Contracting Process

As part of the contracting process, the agency head or designee should clearly define requirements for services so that they will meet the agency's needs and be understood and performed in accordance with the contract's terms and conditions. Contracting officials should use "best practices" techniques to contract for services, manage contracts, and administer contracts, as well as to detect problems in the acquisition, management, and administration of service contracts. The Contracting Officer (CO) is also responsible for all acquisition planning decisions, such as determining the contract type.

Responsible Offices

The EPA's Office of Acquisition Management (OAM), within the Office of Administration and Resources Management, is responsible for issuing the policies and procedures for, managing the operations of, and supporting the agency's

¹ The contract stipulates fixed labor rates and cost-reimbursable other direct costs.

procurement and contracts management program, from contract planning through closeout.

The EPA Conflict Prevention and Resolution Center, within the Office of General Counsel's (OGC's) ADR Law Office, provides ADR services to the entire agency. The Conflict Prevention and Resolution Center also supports the implementation of the EPA's Public Involvement Policy.

Scope and Methodology

We conducted this performance audit from March 2016 through September 2017 in accordance with generally accepted government auditing standards. 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 obtain an understanding of the contractual and acquisition requirements and internal controls, we reviewed the following documentation:

- Contract terms and conditions.
- Federal Acquisition Regulation (FAR).
- EPA Acquisition Regulation (EPAAR).
- EPA Acquisition Guide (EPAAG).
- Presidential and Office of Management and Budget (OMB) memorandums on government contracting.
- Other internal OAM guidance documents related to contract management.
- Prior audit reports relevant to our audit objectives.
- ADR Law Office and Conflict Prevention and Resolution Center internal policies, procedures and tools.
- Internal control assessment reports from the Federal Managers' Financial Integrity Act and the EPA's Contracts Management Assessment Program.
- Roles and responsibilities within the EPA's contract management structure.

To determine whether the EPA receives services and whether costs are billed in accordance with contractual and acquisition requirements, we performed the following actions:

- Judgmentally selected and reviewed 10 task orders² based on the following criteria: high-dollar value, the potential locations affected, and

² As of March 2016, the contract had a total universe of 71 task orders, which collectively valued \$22,170,810. The 10 task orders we reviewed collectively valued \$5,287,718 (24% of the universe value).

the service types procured. See Appendix A for more details on the task orders reviewed.

- Interviewed the CO, Contracting Officer's Representatives (CORs), Task Order Contracting Officer's Representatives (TOCORs), and other OAM and OGC staff.
- Obtained and reviewed monthly progress reports, invoices and other supporting documentation contained in the contract and task order files.
- Tested the February 2016 monthly progress reports of nine task orders for compliance with contractual requirements. **Note:** Of the 10 overall task orders reviewed, one did not have a monthly progress report for February 2016, so only nine task orders could be tested. (See Appendix A.)
- Tested the February 2016 invoices of nine task orders for compliance with contractual requirements. **Note:** Of the 10 overall task orders reviewed, one did not have an invoice for February 2016, so only nine task orders could be tested. (See Appendix A.)
- Reviewed the final reports for the six task orders—3, 16, 31, 49, 57 and 64—that were completed under this contract as of September 1, 2016.
- Quantified the magnitude of task orders under the contract that do not have written technical direction documents.

Prior Reports

EPA OIG Report No. [16-P-0078](#), *EPA's Background Investigation Support Contracts and OPM Billings Need Better Oversight and Internal Controls*, issued December 14, 2015, found that the EPA did not monitor the support contract for compliance with the terms and conditions of the contract. Specifically, the report identified the following findings:

- Technical direction letters were not being issued as required.
- The COs were not performing invoice reviews.
- The COR did not maintain proper contract documentation.

This report made 14 recommendations; the agency reports that the corrective actions for all of the recommendations have been completed.

EPA OIG Report No. [15-P-0215](#), *Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7*, issued July 20, 2015, found that Region 7 did not adequately monitor the contractor for compliance with the contract requirements:

- Region 7 did not sufficiently review contractor invoices.
- Monthly progress reports did not meet contract requirements.
- The region's annual invoice reviews were lacking.
- The CO did not appoint the COR for the contract in a timely manner.
- Contract clauses were incomplete, repetitive or contradictory.

This report made 26 recommendations; four of the recommendations remain open pending corrective actions.

Chapter 2

Contract Terms and Deliverables Need Improvement

The terms of Contract No. EP-W-14-020 need improvement to provide effective management of services received and costs billed. In addition, contract deliverables need improvement to comply with contractual requirements. Specifically, we identified the following issues during the course of our audit:

- Several contract clauses were outdated, contradictory or incomplete. Several required clauses were also missing.
- The contract did not permit firm-fixed-price task orders.
- Monthly progress reports and final reports were missing required data.
- Contractor invoices did not comply with contractual requirements.

The issues identified occurred due to insufficient oversight. In addition, the agency used the prior contract as a starting point for the current contract, which resulted in some specific contract requirements not being adequately considered.

As a result, the EPA cannot provide the necessary assurance that it received services or correctly paid for billings under Contract No. EP-W-14-020, per the FAR and the terms of the contract.

Contract Terms Did Not Comply With FAR and EPAAR

FAR 52.301 provides a matrix identifying the contract clauses that are required to be included in a federal contract based on the principle type and/or purpose of the contract. EPAAR 1552 outlines additional contract clauses required for EPA contracts.

We found that the contract contained one outdated and two contradictory clauses, and one clause that was missing required information. Additionally, six required FAR clauses were not included in the contract. See Tables 2 through 5.

Table 2: Outdated contract clause

Contract clause		Existing clause	Up-to-date clause needed
G.8	Title	Government property	Government property
	Source	EPAAR 1552.245-73 (July 2004)	EPAAR 1552.245-70 (September 2009)

Source: OIG analysis.

Table 3: Contradictory contract clauses

	Clause	Clause
Contradictory clauses	G.1	I.3
Title	Ordering by Designated Ordering Officers	Ordering
Source	EPAAR 1552.216-72 (April 1984)	FAR 52.216-18 (October 1995)
Contradiction	Talks about issuing delivery orders	Talks about issuing task orders
Explanation	Per FAR 16.501-1, delivery orders are contracts for supplies, while task orders are contracts for services. To comply with the FAR, EPAAR 1552.216-72 was revised in July 2014 to allow references to task orders. Accordingly, Clause G.1 should be modified to discuss the use of task orders rather than delivery orders.	
Contradictory clauses	G.2	I.1
Title	Subcontracting Reports – Small Business and Small Disadvantaged Business Concerns	Small Business Subcontracting Plan
Source	Not applicable	FAR 52.219-9
Contradiction	Permits nonelectronic forms of reporting for subcontracting reports	Requires subcontracting reports to be submitted via the Electronic Subcontracting Reporting System
Explanation	Pursuant to OMB guidance dated November 3, 2005, the EPA mandated the use of electronic reporting in the Electronic Subcontracting Reporting System after December 2005. Accordingly, Clause G.2 should be revised.	

Source: OIG analysis.

Table 4: Contract clause with missing information

Clause	Title	Source	Missing information
G.6	Indirect Costs	EPAAR 1552.242-70 (April 1984)	Did not identify the cost base to which the indirect cost rates are applied

Source: OIG analysis.

Table 5: Contract clauses missing but required by the FAR

Clause number	Clause title	FAR requirement
52.203-5	Covenant Against Contingent Fees	FAR 3.404
52.216-24	Limitation of Government Liability	FAR 16.603-4(b)(2)
52.216-25	Contract Definitization	FAR 16.603-4(b)(3)
52.222-50	Combating Trafficking in Persons	FAR 22.1705(a)(1)
52.223-18	Encouraging Contractor Policies to Ban Text Messaging While Driving	FAR 23.1105
52.233-2	Service of Protest	FAR 33.106(a)

Source: OIG analysis.

In addition to the issues noted in Tables 2 through 5, the base contract and its task orders did not always provide clear and understandable contractual requirements. Specifically, there were conflicting labor rate requirements and ambiguous deliverable requirements:

- The ordered fixed labor rates identified in the contract’s optional form 347 differed from the fixed labor rates in Part 1, Section B.1, Fixed Rates for Services.
- In the task orders reviewed, optional form 347 required the contractor to submit work plans and cost estimates within 10 business days. However, the “Report and Deliverables” section of the same task orders only indicated that these deliverables must be submitted within 10 days. This ambiguous language caused confusion; the four TOCORs interviewed as part of this audit did not know whether this 10-day requirement was in terms of calendar or business days.

Better Oversight Needed for Contract Clauses

The issues with the contract clauses and other requirements occurred largely due to insufficient oversight. In addition, the CO used the predecessor contract as the basis for the new contract and did not update it as necessary for new or required clauses.

As a result, the EPA did not provide the necessary assurance that the contractor is complying with omitted FAR requirements, and the EPA may not be receiving the necessary information to determine whether the contractor is meeting agency requirements. Outdated and contradictory contract clauses and ambiguous contract language can also cause confusion and/or misinterpretation of the contract requirements between the agency and the contractor.

Actions Taken as a Result of Our Audit

The CO issued several contract modifications to correct the issues identified in this finding (Table 6). In addition, as of April 2017, the CO began modifying the “Report and Deliverables” section of new task orders to clarify that the due date for the work plan deliverable is within 10 business days of task order issuance.

Table 6: Contract modifications issued

Contract modification	Date issued	Corrective action
64	May 25, 2016	<ul style="list-style-type: none"> • Corrected the fixed labor rates in the base contract.
65	August 11, 2016	<ul style="list-style-type: none"> • Incorporated the missing FAR clauses (Table 5). • Updated the contract’s EPAAR property clause (Table 2).
75	December 20, 2016	<ul style="list-style-type: none"> • Updated the contract’s indirect costs clause (Table 4).
79	April 4, 2017	<ul style="list-style-type: none"> • Modified Clause G.2 to reflect FAR 52.219-9, Small Business Subcontracting Plan (Table 3). • Modified Clause G.1 to replace all references to “delivery orders” with “task orders” (Table 3).

Source: OIG analysis.

Because these corrective actions were completed during the audit, we make no recommendation related to this finding.

Contract Should Permit Firm-Fixed-Price Task Orders

On March 4, 2009, President Obama issued the *Memorandum of Government Contracting*, which states that certain contract types create a risk that taxpayer funds will be spent on contracts that do not serve the needs of the federal government or the interests of the American taxpayer. The memorandum directs the OMB to issue guidance that would accomplish the following objectives:

- Govern the appropriate use and oversight of all contract types in full consideration of the agency's needs.
- Minimize risk and maximize the value of government contracts.

On July 29, 2009, OMB issued Memorandum M-09-25, which provides guidance to agencies to reduce high-risk contracts. The memorandum states that cost-reimbursement, time-and-material (T&M), and labor-hour contracts increase the risk of overspending because they provide no direct incentive to the contractor to control costs.

In addition, FAR 16.103(c) states that “[COs] should avoid protracted use of a cost-reimbursement or T&M contract after experience provides a basis for firmer pricing.”

Contract Did Not Permit Firm-Fixed-Price Task Orders

The contract only permitted T&M task orders.³ However, there were task orders issued under the contract that could possibly have been firm-fixed-price as opposed to T&M. These task orders were for either facilitation or training services, which have been repeatedly ordered under this contract and the predecessor contracts since 2004.

Agency Staff Believe Firm-Fixed-Price Task Orders Are Not Feasible

Based on our discussions with the CO and CORs, the contract only permitted T&M task orders because the CO and CORs believe facilitation or training services have unknown variables that make firm-fixed-price task orders infeasible. For example, the services provided for each training vary depending on the number of people attending the training, the length of the training, whether the training is customized for the audience (e.g., whether it addresses problems occurring in a particular region), and the location of the training. However, in our opinion, since this service has been repeatedly ordered under prior contracts and

³ This contract does allow for cost-reimbursable other direct costs.

since many other firm-fixed-price EPA contracts exist for training and facilitation services, these variables do not preclude the use of firm-fixed-price task orders.

T&M Task Orders Increase Risk to Government

Contracts that only allow T&M task orders may have the following effects:

- Taxpayer funds may be spent on task orders that are wasteful, inefficient, subject to misuse, or otherwise not well-designed to serve the needs of the federal government or the interests of the American taxpayer.
- The EPA may not be reaping the possible benefits of cost savings related to fixed-price contracting because a reliance on high-risk contracts and task orders provides little incentive for the contractor to control costs.

Reducing the reliance on high-risk T&M task orders can result in numerous benefits, including possible cost savings.

Action Taken as a Result of Our Audit

On April 4, 2017, the CO issued Contract Modification 79 to add six FAR clauses to allow for the option to have firm-fixed-price task orders.

Recommendation

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

1. Require the Contracting Officer, for future task orders, to document why firm-fixed-pricing is not used.

Agency Response and OIG Evaluation

The EPA agreed with Recommendation 1 and provided planned corrective actions that meet the intent of the recommendation. Specifically, the EPA said that COs will document in a Memorandum for the Record why the EPA did not use a firm-fixed-priced structure for task orders exceeding the simplified acquisition threshold. The agency provided an estimated completion date of December 31, 2017, for actions related to Recommendation 1.

Monthly and Final Reports Were Missing Required Data

We compared the February 2016 monthly progress reports for nine task orders to the contract requirements and found that not all of the required information was included, as shown in Table 7.

Table 7: Monthly progress reports missing required data

Noncompliant task orders	Contract requirements	
	Information required <i>(but missing from the progress reports)</i>	Required by section
Five of nine (Task Orders 17, 21, 23, 28 and 44)	For the current period, display the amount claimed.	F.2(e)(1)
All nine	For the cumulative period, display the amount currently claimed, paid, suspended, disallowed and remaining approved amount.	F.2(e)(2)
All nine	A list of employees, their labor categories and the number of hours worked for the reporting period.	F.2(e)(3)(i)
All nine	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.	F.2(e)(3)(ii)
All nine	For the current reporting period, 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.	F.2(e)(3)(iii)
All nine	Display the estimates of remaining direct labor hours and costs required to complete the work assignment or delivery order.	F.2(e)(3)(v)
All nine	Unbilled allowable costs. Display the total costs incurred but unbilled for the current reporting period and cumulative for the work assignment	F.2(e)(4)
All nine	Average cost of direct labor. Display the actual average cost per hour with the cost per hour estimated in the work plan.	F.2(e)(5)
All nine	The reports shall specify progress status at the task order level as follows: The contractor shall explain any lagging costs that are not being billed and state the expected period for billing them and any difficulties in obtaining the appropriate documentation for billing. The contractor shall also provide an explanation of any previously lagging costs that will be billed during the current reporting period.	F.2(g)(4)

Source: OIG analysis.

In addition to monthly progress reports, Section F.3(B) of the contract requires the contractor to submit a final report with specific information once a task order is completed. We compared the final reports for the six task orders completed as of September 1, 2016, to the contract requirements and found that the reports did not include all requirements from Section F.3(B)(4). Specifically, the final reports did not contain a final summary budget outlining costs by labor category and direct cost categories; these costs should also be further broken down by design, implementation and evaluation phase.

Better Oversight Needed for Report Information

The incomplete reports were accepted due to inadequate oversight of the contract. The CO stated that the reports were missing the required contract information because the CORs did not closely examine the reports. As a result, the EPA did not receive some of the required information needed to manage the task orders effectively.

Actions Taken as a Result of Our Audit

The alternate COR emailed the contractor on August 23, 2016, asking the contractor to include the missing required information in the task order final reports. The information requested included the final summary budget outlining costs by labor categories, hours and other direct costs. In addition, the CO emailed the contractor on March 8, 2017 and instructed the contractor to include all required information in the monthly progress reports.

Recommendation

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

2. Require the Contracting Officer to perform periodic spot checks to verify that the Contracting Officer's Representative is confirming that monthly progress reports and task order final reports include all required information.

Agency Response and OIG Evaluation

The EPA agreed with Recommendation 2 and provided corrective actions that meet the intent of the recommendation. The EPA responded that the CO will meet monthly with the program office (OGC's ADR Law Office) to review the contractor's progress and final reports and to confirm inclusion of all contractual terms and conditions. The agency completed this corrective action for Recommendation 2 on June 30, 2017 and provided the documented minutes of a July 28, 2017, meeting between the CO and the COR.

Contractor Invoices Did Not Comply With Contract Requirements

The contract includes invoice preparation instructions that require contractor invoices to contain specific information. The contract also includes clauses that identify the indirect cost rates and allowable other direct costs to be billed on invoices. Additionally, OAM's *Invoice Review & Approval Desk Guide* for reviewing invoices includes a checklist that TOCORs can use when reviewing contractor invoices.

We compared the February 2016 invoices for nine task orders to the contractual requirements and found that invoices for six task orders did not comply with the contract’s terms and conditions (Table 8).

Table 8: Task order invoices not compliant with contract requirements

Noncompliant task orders	Contract invoice requirements	
	Points of noncompliance	Required by
Two of nine (Task Orders 1 and 33)	General and administrative (G&A) indirect costs billed on the invoices did not identify (by cost center) the indirect cost rate, the period, and the cost base to which it is applied. Furthermore, the G&A rate billed on the invoices was 13%, but contract Section G.6 stipulated that the G&A rate should be 13.9%.	<ul style="list-style-type: none"> • Invoice preparation instructions for Standard Form 1035. • Contract Section G.6.
Four of nine (Task Orders 28, 27, 44 and 45)	Sub-handling billed on the invoices did not identify (by cost center) the indirect cost rate, the period, and the cost base to which it is applied. Furthermore, the sub-handling billed was 2.94%, but contract Section G.6 stipulated that the sub-handling rate should be 3.53%.	<ul style="list-style-type: none"> • Invoice preparation instructions for Standard Form 1035. • Contract Section G.6.
One of nine (Task Order 33)	The invoice billed training under other direct costs, which is unallowable because there was no prior CO approval.	<ul style="list-style-type: none"> • Contract Section B.3.

Source: OIG analysis.

Better Oversight Needed for Invoice Reviews

There was insufficient attention paid to the relevant contract requirements during invoice review and approval. Based on our interviews with TOCORs, invoice reviews were conducted mostly by comparing invoices to the monthly progress reports and not to the contract requirements.

OAM provides a checklist in its *Invoice Review & Approval Desk Guide* for TOCORs to use when reviewing invoices. Additionally, page 4 of this guide states that all CORs must document in their files that invoice reviews were performed:

A file of all invoices, monthly progress reports, invoice review checklists, and all other documentation associated with the reviews must be maintained for the life of the contract or applicable records retention requirements, whichever is longer.

However, even though this checklist and guidance are available, TOCORs did not use this specific checklist for eight of the 10 task orders we reviewed.

Lack of Invoice Reviews Increases Risk of Improper Billings

The EPA did not have full assurance that the TOCORs were adequately reviewing the costs billed or that the costs billed were allowable. Our limited review of invoices revealed invoices that included incorrect billing rates and did not comply

with contract requirements. In addition, a February 2016 invoice for Task Order 33 billed the EPA \$1,625 for training, along with the related G&A billed of \$211.25. We determined that this \$1,836.25 is unallowable.

Actions Taken as a Result of Our Audit

The COR prepared a customized TOCOR invoice review checklist and, in an email dated November 29, 2016, directed that all TOCORs under the contract use this checklist during monthly invoice reviews. The email also specified that the completed checklists be retained in the task order files.

Additionally, the CO instructed the contractor to modify its invoices to comply with the contract's requirements and to bill the correct indirect rates on its invoices, in accordance with the contract. Also, an April 2017 invoice for Task Order 33 credited the unallowable training and related G&A costs that had been billed on the February 2016 invoice.

Finally, the COR confirmed in May 2017 that quarterly spot checks are being performed to verify that the TOCORs use the customized invoice review checklist during their review and approval of contractor invoices.

Recommendation

We recommend that the General Counsel:

3. Require that the Contracting Officer's Representative perform periodic spot checks to verify that all required information is included in the contractor invoices.

Agency Response and OIG Evaluation

The EPA agreed with Recommendation 3 and provided corrective actions that meet the intent of the recommendation. The EPA agreed that reviews of invoices should be comprehensive and documented appropriately. The agency also issued a memorandum, dated June 29, 2017, requiring that the COR conduct periodic reviews of invoices to confirm the inclusion of all required information. The agency completed all corrective actions for Recommendation 3 on June 29, 2017.

Chapter 3

Contract Management Needs Improvement

The management of Contract No. EP-W-14-020 needs to be improved to strengthen controls over contract activities. Specifically, we identified the following management issues:

- Four TOCORs provided oral technical direction to the contractor but did not issue or confirm this direction in writing, as required by the contract and EPAAR.
- In one instance, the EPA did not report contractor performance evaluation information in a timely manner, as required by the FAR.
- The CO had not performed invoice reviews in a timely manner, as required by the EPAAG.
- The COR appointment memorandum was not issued at the time of contract award, as required by the FAR and EPAAG.

A majority of the contract management issues we identified occurred due to a combination of insufficient oversight and workload demands. These issues undermine the agency's internal controls and increase risk to the government.

Oral Technical Direction Given but Not Documented

Contract Section H.14(d) and EPAAR 1552.237-71(d) require that technical direction be issued in writing or confirmed in writing within 5 days after oral issuance. These documents also require that the CO be copied on any technical direction issued. Pursuant to Section H.14(b) of the contract, technical direction includes the following actions:

- Instruction that approves contractor approaches; solutions, designs, or refinements; fills in details; and the general descriptions of work shifts emphasis among work areas or tasks.
- Evaluation and acceptance of reports or other deliverables.

TOCORs told us that they provided oral technical direction to the contractor for four of the 10 task orders reviewed; however, these directions were never issued or confirmed in writing with a copy to the CO. As of April 2016, we also noted that 50 out of the 71 task orders issued (70.4 percent) did not have any written technical direction documents, which raises the question about whether only oral technical direction has been given on some of those task orders, as well.

More Awareness Needed of the Definition of Technical Direction

Some of the TOCORs did not understand the requirements related to technical direction. Our audit determined that a lack of oversight permitted the substitution of oral technical direction for written technical direction; the COR did not provide adequate oversight by monitoring whether the TOCORs issued written technical direction.

Not Documenting Technical Direction Increases Risk to the Government

By verbally managing contracts and not providing written technical direction documents, the agency increases the risk that the contract relationship is characterized as a personal services contract. FAR 37.104(a) provides the following definition of a “personal services contract”:

A personal services contract is characterized by the employer-employee relationship it creates between the government and the contractor’s personnel. The Government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by the civil service laws. Obtaining personal services by contract, rather than by direct hire, circumvents those laws unless Congress has specifically authorized acquisition of the services by contract.

FAR 37.104(b) prohibits agencies from awarding personal services contracts unless specifically authorized by statute. While a variety of factors must be weighed in determining whether a contract’s administration creates a personal services contract, Appendix 37.1.1-B(b) of EPAAG 37.1.1 directs that the key element is whether agency personnel exercise “continuous supervision and control over the contractor personnel performing the contract.” We believe that providing only verbal direction to the contractor could easily evolve into providing continuous instructions to the contractor, as opposed to less frequent written directives. Such a practice would make the EPA vulnerable to developing improper personal services relationships.

Additionally, no written record of a TOCOR’s technical direction to the contractor presents increased legal risks to the government. For example, during a legal dispute relating to a contract, written technical direction documents would provide evidence of communication between the agency and the contractor.

Actions Taken as a Result of Our Audit

The COR provided guidance and instruction to all TOCORs in an email dated February 3, 2017, clearly defining technical direction and emphasizing the

requirement to put technical direction in writing. The emailed instructions also mandated that the CO receive copies of all written technical directions. In addition, the CO updated the TOCOR appointment memorandum to include a statement regarding the requirement for written technical directions; all new TOCORs and TOCORs with revised appointments will receive this updated memorandum. These corrective actions were completed during the audit; as a result, we make no recommendation related to this finding.

Contractor Performance Evaluation Not Completed in Timely Manner

Contract Section H.19 states that the EPA will prepare and submit past performance evaluations to the Past Performance Information Retrieval System (PPIRS). FAR 42.1502 and 42.1503 require that past performance evaluations be prepared at least annually and submitted electronically in the Contractor Performance Assessment Reporting System (CPARS). The evaluations automatically transfer to PPIRS from CPARS.

The EPA did not submit contractor performance evaluation information into CPARS in a timely manner for the first year of the contract,⁴ as required by the FAR. A search of PPIRS in May 2016 did not find a performance evaluation report for this contract for the first year. The COR initiated the evaluation, but because of a technical glitch in CPARS—a system outside of the agency’s control—the report did not show up in the system.

The COR did submit the contractor performance evaluation reports in PPIRS via CPARS in a timely manner for the second year of the contract. *Note:* The third contract year was still underway during the writing of this report.

Delayed Reporting Hinders Access to Contractor Performance Information

Delayed CPARS reporting has the following potential effects:

- Decreases the ability of source selection officials and others involved in the acquisition process to obtain access to sufficient contractor performance information.
- Decreases the availability of contractor performance information to the federal government for making future contract award decisions.
- Hinders improvement in government acquisition practices.

⁴ The CPARS report for the first year assessed the period of performance from June 2014 (the time of contract award) to June 2015.

Action Taken as a Result of Our Audit

The COR worked with the CPARS help desk to resolve the technical issues in CPARS related to the contractor performance evaluation report for the first year of the contract. This corrective action was completed during the audit; as a result, we make no recommendation related to this finding.

Contracting Officer Invoice Reviews Not Completed in Timely Manner

According to EPAAG 32.9.1 and OAM's *Invoice Review & Approval Desk Guide*, a CO's periodic monitoring must include at least one detailed review of a contract invoice for each contract year. Also, for many contract types, more frequent monitoring is required for proper invoice approval. Since COs have the ultimate responsibility and accountability for invoice processing, at least quarterly and more frequent reviews are highly recommended.

Timely Invoice Reviews Could Help Detect Noncompliance

Although the EPA awarded the contract in June 2014, the CO did not conduct an invoice review until March 2016. The CO stated that there was not enough time to do the invoice reviews because of workload demands.

Without the required CO invoice reviews, the EPA did not provide necessary assurance that costs were being billed in accordance with contract requirements. Had the CO performed the required invoice reviews, some of the noncompliant invoices (e.g., invoices missing required data or invoices with incorrect indirect rates) may have been detected. See Chapter 2 in the "Contractor Invoices Did Not Comply With Contract Requirements" section for more information.

Action Taken as a Result of Our Audit

As a result of this audit finding, the CO began performing and documenting quarterly invoice reviews, in accordance with OAM's *Invoice Review & Approval Desk Guide*. This corrective action was completed during the audit; as a result, we make no recommendation related to this finding.

COR Appointment Memorandum Not Issued in Timely Manner

FAR 1.602-2(d) requires that COs, in accordance with agency procedures, designate and authorize in writing a COR for all contracts other than firm-fixed-price contracts, unless the CO retains and executes the COR duties. EPAAG 1.6.5.10(d)(2) states that the CO will determine the level of COR needed to support a specific contract action and will advise the program office of this decision as early in the acquisition process as practical. It is highly recommended that COs issue a COR appointment memorandum before any pre-award tasks are performed, if applicable, so CORs can assist with both pre-award and post-award

responsibilities. Issuing the memorandum early allows CORs to become familiar with the requirements of the contract under which they will support contract administration activities.

When Contract No. EP-W-14-020 was awarded on June 13, 2014, the EPA identified a COR for this contract; however, an appointment memorandum was not issued at contract award, as required by the FAR and EPAAG. Instead, the COR appointment memorandum is dated February 12, 2015, an 8-month delay. The CO said the COR appointment memorandum document was delayed because the CO inadvertently forgot to complete it due to other workload demands.

Delayed COR Appointment Memorandum Increases Risk of Unauthorized Acts

For 8 months, the COR performed contract functions without the proper authority to act on behalf of the CO. Without an appointment memorandum, the contractor and COR may not know the extent and limitations of the COR's authority and may not be familiar with the requirements of the contract. This increases the risk that the COR could be held personally liable for unauthorized acts.

The CO issued the COR appointment memorandum for this contract on February 12, 2015. The proper COR appointment memorandum was in place before the audit; as a result, we make no recommendation related to this finding.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	9	Require the Contracting Officer, for future task orders, to document why firm-fixed-pricing is not used.	R	Assistant Administrator for Administration and Resources Management	12/31/17	\$34,800 *
2	11	Require the Contracting Officer to perform periodic spot checks to verify that the Contracting Officer's Representative is confirming that monthly progress reports and task order final reports include all required information.	C	Assistant Administrator for Administration and Resources Management	6/30/17	
3	13	Require that the Contracting Officer's Representative perform periodic spot checks to verify that all required information is included in the contractor invoices.	C	General Counsel	6/29/17	

-
- 1 C = Corrective action completed.
R = Recommendation resolved with corrective action pending.
U = Recommendation unresolved with resolution efforts in progress.

* The unobligated capacity remaining on the contract at the start of the audit was \$34.8 million. If all recommendations are completed, that entire amount can benefit from the improvements and generate better results for the agency.

Sampled Task Orders Reviewed

Task order number	Service	Affected locations	Total value ceiling	Criteria for inclusion ^a	Tested for:	
					Monthly report ^b	Monthly invoice ^b
1	Tracking	Headquarters	\$91,297	Highest dollar value for this primary type of service	√	√
17	Mediation	Multiple locations	113,555	Highest dollar value for this primary type of service	√	√
21	Facilitation	Region 1	51,176	Site visit observation	√	√
23	Evaluation	Headquarters	131,819	Highest dollar value for this primary type of service	√	√
27	Outreach	Region 3	1,337,477	Highest dollar value for this primary type of service	√	√
28	Facilitation	Multiple locations	2,008,268	Highest dollar value for this primary type of service	√	√
33	Training	Multiple locations	1,175,814	Highest dollar value for this primary type of service	√	√
36	Meeting Support	Region 8	129,250	Highest dollar value for this primary type of service		
44	Assessment	Region 3	105,980	Highest dollar value for this primary type of service	√	√
45	Coaching	Headquarters	143,082	Highest dollar value for this primary type of service	√	√
Total			\$5,287,718			

Source: OIG audit sample from the OGC-provided universe.

^a A judgmental sample of 10 of the 71 task orders (as of March 2016) was primarily selected based on high-dollar value within each primary type of service provided. Task Order 21 was selected to expand regional coverage.

^b The February 2016 monthly progress reports and invoices for the indicated task orders were tested as part of this review.

Agency Response to Draft Report

July 28, 2017

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA-FY16-0124
“Improvements Needed to EPA’s Management of the \$51 Million Contract for
Alternative Dispute Resolution and Public Involvement,” Dated May 10, 2017

FROM: Kevin S. Minoli, Acting General Counsel
Office of General Counsel

Donna J. Vizian, Acting Assistant Administrator
Office of Administration and Resources Management

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. The agency concurs with the findings and recommendations of this report; however, we recommend that the report focus on better documentation of existing contract management practices. Attached is the agency’s response to the report recommendations and technical comments from the Office of General Counsel. We recommend the report be revised to accurately account for the prior completion of recommendation #3. In addition, we request revision of the text box in the upper right hand corner of the “At a Glance” page to more accurately reflect the findings. We have included recommended revised language in Attachment 2.

If you have any questions for the Office of General Counsel regarding this response, please contact Jeanne Briskin, Director, Alternative Dispute Resolution Law Office at (202) 564-4583 briskin.jeanne@epa.gov or Terry Fenton, Project Officer, Alternative Dispute Resolution Law Office at (202) 564-2090 fenton.terry@epa.gov.

If you have any questions for the Office of Administration and Resources Management regarding this response, please contact Celia M. Vaughn, Chief of Staff, Office of Acquisition Management at (202) 564-1047 or Keith Stewart, Director, Headquarters Operation Division, Office of Acquisition Management at (202) 564-0163.

Finally, we would like to extend a specific note of thanks to the audit team and the leadership of the Office of Audit for their commitment to understanding the factual details regarding this contract and willingness to work with our staff to jointly improve the report.

Attachments

cc: John Showman

Kimberly Patrick

Pam Legare

Keith Stewart

Celia Vaughn

Michael Petscavage

Teren Crawford

Melinda Burks

Richard Valliere

Elise Packard

Jeanne Briskin

Terry Fenton

Marian Cooper

Lauren Lemley

AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS:

No.	Recommendation	Assigned to:	High-Level Intended Corrective Actions	Estimated Completion by Quarter and FY
1	Require the Contracting Officer, for future task orders, to document why firm-fixed pricing is not used.	OARM	For future task orders that exceed the simplified acquisition threshold under Contract # EP-W-14-020 (currently \$150,000), awarded on <u>other than</u> a firm-fixed price basis, the Contracting Officer will document through a Memorandum for the Record, the reason why the CO did not use firm-fixed pricing for the task order.	1st Quarter of FY 2018 Starting on October 1, 2017
2	Require the Contracting Officer to perform periodic spot-checks to verify that the Contracting Officer's Representative is confirming that monthly progress reports and task order final reports include all required information.	OARM	The Contracting Officer will meet with the program office on a monthly basis to review the monthly progress reports and task order final reports to ensure all required information is provided in those reports, per the terms and conditions of the contract in sections F.2. – Monthly Reports and section F.3. – Final Reports.	3rd Quarter of FY 2017 Starting on June 1, 2017
3	Require that the Contracting Officer's Representative perform periodic spot-checks to verify that all required information is included in the contractor invoices.	OGC	OGC agrees that reviews of invoices should be comprehensive and documented appropriately.	Completed April 26, 2017, with written follow up documentation completed June 29, 2017.

COMMENTS

“At a Glance” Fact Sheet

OGC believes that the overall tone of this fact sheet comes across as more negative than the text of the full report would justify. In particular, the statement included in the shaded text box, “The EPA cannot provide the necessary assurance that it effectively receives services and correctly pays for billings under this \$51 million contract,” is misleading in both the substance and the scope of the concern identified in the report. Substantively, the sentence implies that the agency lacks *any* assurance that it effectively received services and correctly pays for those services under this contract. While the agency accepts the findings regarding compliance with contracting documentation requirement and has agreed with all three recommendations, as detailed below there were numerous other sources of information that demonstrates the effectiveness of the services received and the accuracy of the payment for them.

The statement’s scope is also misleading in that it allows a reader to conclude that \$51,000,000 was actually obligation under this contract and reviewed during the audit. That is not the case. The agency had obligated a total of \$16,700,000 under this contract at the time of the audit – or just less than 1/3 of the \$51,000,000 amount. Most issues identified in the report had a minor, if any, impact on actual service quality, cost, or timeliness. In particular, the only incorrect billing to the government was for a training course tuition (\$1625.00) and associated general administrative expenses (G&A, \$211.25) totaling \$1,836.25 that has since been refunded, and has now been paid appropriately by the government to the vendor using the SF 182 Training Request form. This represents only 0.01% of the \$16.7 million in total obligations to the contract and 0.03% of the \$5.28 million value of the audited task orders.

As written, the statement in the text box allows readers to draw conclusions as to the substance and scope of the problems identified that are not supported by the findings in the report and could limit the value of the report. The text box would more accurately summarize the overall impact of the report if it stated: “*The EPA must make certain improvements to provide better assurance that it effectively receives services and correctly pays for billings under this \$51 million contract.*”

Findings:

Agency Staff Believe Firm Fixed Price Task Orders Are Not Feasible (p. 8)

The draft report states that both facilitation and training services could possibly lend themselves to firm fixed price task orders. Through the many orders for facilitation services which have been placed during this contract and the predecessor contract, EPA has learned that it is important that the planning, implementation and follow up work to enable successful facilitation be customized, and that the level of effort necessary to meet EPA requirements is difficult to predict. Facilitation provided under this contract is a sophisticated process that typically requires a detailed intake by the facilitator to adequately bring participants to the meeting and to design the meetings which will ultimately be facilitated. At project initiation, the facilitator must meet with all relevant parties, and the results of these initial meetings affect the number and duration

of later needed meetings. It is not possible to predict the number of preparatory and full meetings, and what duration will be necessary in order to accomplish the goals of the assignment accurately enough to establish a firm fixed price. Therefore, it is not generally appropriate to set a firm fixed price on facilitation assignments in particular. OIG should delete “for either facilitation or” from the last sentence in the section entitled *Contract did not Permit Firm-Fixed-Price Task Orders*. In the section entitled *Agency Staff Believe that Firm-Fixed-Price Task Orders Are Not Feasible*, OIG should edit the heading and first sentence by changing the words “not feasible” and “infeasible” to “inappropriate.”

Better Oversight Needed for Report Information (p. 10)

The draft report states that “As a result [of inadequate oversight of the contract] EPA is not receiving some of the required information needed to manage task orders.” Although a few required elements were not available in monthly progress reports, much of this information was available in Dashboard, EPA’s best practice tool that is routinely used by TOCORs and CORs in their review of progress reports and invoices. This additional data availability and practice largely ameliorates the concern stated here. The last sentence on p. 10 should be revised to read, “Although EPA did not receive all the required information in monthly progress reports, additional information available in Dashboard provided significant supplemental information needed to manage task orders effectively.”

RECOMMENDATIONS

1. We recommend that the report better recognize key management systems that were reviewed during the audit and are unique to this contract: (1) two detailed and customized Task Order Contract Officer’s Representative (TOCOR) Instruction Manuals, (2) the unique evaluation system for every task order, and (3) the on-line Dashboard contract and task order system. We believe that these management systems are worthy of presentation and discussion. Their limited mention in the report does not adequately depict the level and quality of historical and ongoing management and oversight performed on this contract.
 - The Conflict Prevention and Resolution Center (CPRC, in OGC’s Alternative Dispute Resolution Law Office (ADRLO)) has for nearly 20 years, provided and updated detailed, customized TOCOR Instruction manuals that provide information on initiating and managing task orders under this contract, including example task orders, technical direction, and monthly review directions. The IG reviewed these documents as a part of the audit process.
 - CPRC has for nearly 10 years implemented a task order evaluation system that provides TOCOR performance evaluation on an annual basis, and at the beginning and end of every task order or technical direction project for the prime contractor, any subcontractor and the CPRC itself. These evaluation scores are used to complete performance reviews in the CPARs system. When evaluations show that contract services are below typical standards for quality and timeliness, the contract officer’s representatives (CORs) together with ADRLO management review the task order or technical direction, determine whether corrective action is needed and what that action might be, and if needed, act to correct the issue. The most recent evaluation of performance of task orders completed under current contract shows ratings of 9 or greater out of 10 for all measures.

- The contract required the creation and maintenance of an on-line information system that provides 24/7 access for the contracting officer (CO), CORs, and TOCORs who need up-to-date information on project status and project budget details. The system has been in place since the beginning of the contract. Much of the information required in the contract is maintained in this system. This system supplements information provided in invoices and progress reports. It is retained for the life of the contract and to meet the applicable records management requirements. TOCORs and CORs make routine use of this information to supplement their review of invoices and at other key points in time.

2. We suggest that the OIG recommend at the agency level, to make the Invoice Checklist a mandatory part of the EZ Lite invoice payment system. This change would require the TOCOR to complete the checklist prior to being able to submit the invoice payment recommendation in the system. This would provide a much more complete program of invoice review and documentation than the spot checks of TOCOR files being performed by the CORs. It would facilitate achievement of a higher quality review, greater compliance, and provide a more accessible verification system for OIG and CO oversight going forward. This detailed invoice review and certification process used to be part of the invoice approval system when the system operated manually in hard copy via regular mail. While implementation of this recommendation would incur a one-time system design expense, it should reduce the overall personnel costs of duplicative compliance checks and filing systems for the entire agency.

OIG Response: Overall, this audit report appropriately communicates the EPA OIG audit results, and we disagree that the OIG needs to make further changes to the report language. The EPA asserted that most issues identified in the report had a minor, if any, impact on actual service quality, cost or timeliness. We disagree with the characterization of these issues as minor. The agency response concentrates only on a few low-dollar value issues. However, there were several contract and management issues that we believe are significant. For example, the preclusion of firm-fixed price task orders and the use of verbal technical direction with no written follow-up, in our opinion, would not be considered minor issues. Accordingly, we do not believe that any changes are necessary to the report language.

Also, the EPA suggested that the OIG recommend making the invoice checklist a mandatory, agencywide requirement within the EZ Lite invoice payment system. We did not obtain sufficient audit information on the EZ Lite invoice payment system to effectively make that recommendation; however, if it is feasible, the agency does not need a recommendation from the OIG to make such a change.

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