



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

Interagency Agreements to Use Other Agencies' Contracts Need Additional Oversight

Report No. 2007-P-00011

March 27, 2007

Report Contributors:

John Trefry
Nancy Dao
Doug LaTessa

Abbreviations

DM	Decision Memorandum
DOE	U.S. Department of Energy
Treasury	U.S. Department of the Treasury
EPA	U.S. Environmental Protection Agency
FAR	Federal Acquisition Regulation
GAD	Grants Administration Division
GAO	U.S. Government Accountability Office
IAC	Interagency Contract
IAG	Interagency Agreement
IGCE	Independent Government Cost Estimate
OAM	Office of Acquisition Management
OARM	Office of Administration and Resources Management
OFPP	Office of Federal Procurement Policy
PO	Project Officer



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

The U.S. Government Accountability Office has designated management of interagency contracting a Government-wide high-risk area since 2005. We sought to determine whether the U.S. Environmental Protection Agency (EPA) effectively follows interagency contracting requirements by ensuring products and services meet quality, cost, and timeliness requirements. We also looked into whether opportunities exist to improve EPA's processes for managing interagency contracts.

Background

EPA defines an interagency agreement as a written agreement between Federal agencies under which goods or services are provided. Interagency contracts are contracts awarded by one Federal agency but available to others for use, generally for a fee.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2007/20070327-2007-P-00011.pdf

Interagency Agreements to Use Other Agencies' Contracts Need Additional Oversight

What We Found

While EPA has improved some interagency contracting processes, we found that the Agency entered into some interagency contracts without meeting all requirements. EPA often entered into interagency contracts without conducting cost reasonableness assessments, or identifying alternatives, such as determining whether EPA's in-house acquisition staff should acquire the services or products for them. As a result, we found interagency contracts where EPA could have saved money if it had awarded the contracts directly through its in-house contracting staff. This occurred because (1) project officers preferred the speed and convenience of interagency contracts, received inadequate training, and lacked sufficient guidance; and (2) EPA provided limited oversight.

We found other opportunities for EPA to improve its processes for managing interagency contracts. EPA needs to ensure that newly assigned project officers to existing interagency contracts receive a complete file for effective contract management. Also, EPA did not collect data on the fees paid to other agencies for interagency contracts, so costs and benefits could not be determined.

In addition, we noted positive aspects of the interagency contracting process. These involved ordering work within the scope of the existing agreement; project officers being satisfied with the quality and timeliness of services; and, in most cases, contractor invoices having sufficient information for approval.

What We Recommend

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

- Provide guidance to project officers on conducting cost reasonableness assessments and identifying alternatives before using IAG contracts.
- Strengthen training to include how to develop independent government cost estimates or other appropriate cost information, conduct cost reasonableness assessments, and identify alternatives.
- Ensure that the Grants Administration Division requires that the IAG decision memorandum better explains why an IAG is more cost effective, and include an evaluation of cost reasonableness assessments in reviews.

EPA generally agreed with our recommendations, but deferred action pending the issuance of Government-wide guidance by the Office of Federal Procurement Policy. EPA has been informed that a guidance document will be issued in the next several months on roles and responsibilities on interagency contracting.



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

OFFICE OF
INSPECTOR GENERAL

March 27, 2007

MEMORANDUM

SUBJECT: Interagency Agreements to Use Other Agencies' Contracts
Need Additional Oversight
Report No. 2007-P-00011

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

TO: Luis A. Luna
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 estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$287,000.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact me at (202) 566-0899 or heist.melissa@epa.gov; or Carl Jannetti, the Product Line Director for Contract Audits, at (215) 814-5800 or jannetti.carl@epa.gov.

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Chapter 1

Introduction

Purpose

Interagency contracts (IACs) are contracts awarded by one Federal agency but available to others for use, generally for a fee. We conducted this review to determine whether:

- The U.S. Environmental Protection Agency (EPA) effectively follows interagency contracting requirements by ensuring products and services meet quality, cost, and timeliness requirements; and
- Opportunities exist to improve EPA's processes for managing IACs.

Background

According to Federal Acquisition Regulation (FAR), Section 1.102(a), "The vision for the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives." This is accomplished by maximizing the use of commercial products and services, promoting competition, etc. For example, FAR Part 7 requires agencies to perform acquisition planning and conduct market research for all acquisitions. FAR Part 10 requires that agencies conduct market research appropriate to the circumstances, while FAR Part 6 requires that, with certain limited exceptions, the government promote and provide for full and open competition when awarding government contracts.

The U.S. Government Accountability Office (GAO) has reported that in recent years, Federal agencies have been making greater use of interagency contracting. An agency can enter into an interagency agreement (IAG) with a servicing agency to conduct the acquisition on its behalf. EPA defines an IAG as a written agreement between Federal agencies under which goods or services are provided on a reimbursable basis. An IAG can take a variety of forms, including an IAC where EPA uses a contract awarded by another Federal agency, or an agreement where another Federal agency uses its staff to provide services to EPA. EPA does not uniquely identify IACs from other IAGs, and considers these procurements to be IAGs.

EPA uses several statutory authorities for entering into IAGs. The Economy Act is the primary authority for EPA to enter into IAGs with other Federal agencies. The Economy Act is designed to further economy and efficiency in government, and allows Federal agencies with greater capabilities to provide goods or services for other agencies with less experience. For IAGs that cite the Economy Act, a Determination and Finding is prepared and signed by the Office of Acquisition

Management (OAM) to ensure that (1) the project is not being duplicated by contractors, (2) the project is in the best interest of government, and (3) the supplies or services cannot be obtained as conveniently or economically by contracting with a private source. Other statutory authorities EPA uses include the Information Technology Management Reform Act and the Government Management Reform Act.

EPA has delegated authority to the Grants Administration Division (GAD) to enter into and execute IAGs for the Agency. GAD develops and implements Agency-wide administrative policy and procedures for IAGs, including training for IAG managers. During the course of our review, EPA issued an Order regarding no cost amendments, such as a change of project officers (POs), as well as processing invoices and closing out of interagency agreements. GAD also reviews and approves all EPA agreements or amendments that originate in headquarters and that involve payment or receipt of funds. For IAGs originating in EPA regional offices, regional management designates the unit within the regional office that is responsible for conducting administrative and financial review and management of IAGs.

EPA designates POs to provide technical and managerial oversight of IAGs. POs prepare a Decision Memorandum (DM), which documents the program office's reasons to use an IAG. They also negotiate the terms of the IAG, develop a Project Work Plan, manage and evaluate performance, approve payments, and assist GAD in closing out the agreements.

GAO designated management of interagency contracting a Government-wide high-risk area in 2005. GAO cited a number of factors that make these types of contracts high-risk, including (1) their rapid growth in popularity, along with their administration and use by some agencies that have limited expertise with this contracting method; and (2) their contribution to a much more complex procurement environment, in which accountability has not always been clearly established.

The Office of Management and Budget has also taken an interest in interagency contracting. In November 2005, the office established a working group to improve the management and use of IACs. The office also began collecting information on agencies' use of these vehicles. For purposes of the Office of Management and Budget's data collection efforts, the office included the following as IACs:

- A Government-wide acquisition contract, as defined in the FAR 2.101;
- A multi-agency contract as defined in FAR 2.101;
- A blanket purchase agreement on the Multiple Award Schedules for use by multiple agencies; or
- Other indefinite delivery vehicles with anticipated use by external agencies.

Noteworthy Achievements

In recognition of the importance of strengthening the IAG management process to meet the goals and objectives of EPA's strategic plan, EPA issued an order during the course of this review regarding no cost amendments, processing invoices, and closing out of interagency agreements. This policy includes specific requirements to ensure that IAGs are effectively managed. In several cases that we reviewed, POs received detailed cost information to support approval of invoices. This is noteworthy since, in the past, EPA expressed concern that POs did not have detailed cost information to approve invoices timely. Further, the underlying contracts, task orders, or programmatic information we obtained indicated that the statements of work between EPA and the servicing agencies were within the scope of the underlying contracts.

Scope and Methodology

We conducted our audit from June 2006 through October 2006 in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We selected a judgmental sample of 10 IACs where EPA paid funds to another agency to obtain goods or services under their contract. These 10 Funds-Out IACs were selected from an estimated universe of 157 awarded by GAD and EPA regional offices via an interagency agreement. Work ordered under the 10 IACs we sampled was valued at \$62.9 million, while the universe was valued at \$178.8 million. One of the procurements selected, valued at \$2.4 million, did not meet our definition of an IAC and was discarded from our sample. The IACs selected were awarded by EPA headquarters and EPA Regions 1 and 6. We reviewed both the official file maintained by the grants office that awarded the IAC as well as the PO file. We interviewed the PO for each IAC in our sample, and also interviewed Grants Specialists and OAM staff. Appendix A provides further details on our scope and methodology.

We have not previously reported on the Agency's use of IACs, but have issued reports regarding EPA's use of IAGs. In June 2001, we issued a report entitled *Superfund Interagency Agreements*, Report No. 2001-P-00011. In September 2000, we issued a report entitled *Follow-Up on Headquarters Interagency Agreements*, Report No. 2000-P-0029. That report had followed up on findings in our March 1995 report, *Interagency Agreements: Off-Loading at EPA Headquarters*, Report No. E1FMG4-13-0061-5400051.

Chapter 2

Interagency Agreements to Use Other Agencies' Contracts Need Additional Oversight

EPA program offices often initiated IACs without conducting adequate cost reasonableness determinations, or assessing whether EPA's in-house acquisition staff should acquire the services or products for them. This occurred because POs preferred the speed and convenience of IACs. Because EPA provided limited oversight, inadequate training, and insufficient guidance, program offices used IACs without determining if the contracts provided the best value. As a result, despite some improvements, EPA lacks assurances that its IACs were an efficient approach, considering time and cost. An efficient approach is required by EPA guidance. With improved procedures, EPA could have acquired some of the services it needed at less cost.

Some IACs Lack Cost Reasonableness Determinations

For six of the nine procurements we reviewed, cost reasonableness determinations were not adequately performed before using an IAC. EPA program offices can use an IAG if it is an efficient approach, considering both time and cost. EPA requires that program offices show that the cost of the proposed work is reasonable, considering efficiency, based on an Independent Government Cost Estimate (IGCE) or other appropriate cost information. These cost determinations are to be documented in the program office file and summarized in the decision memorandum.

Table 2-1: Procurements With Inadequate Cost Reasonableness Determinations

OIG Analysis	Project Total
1. No IGCE developed. No alternatives identified to compare costs.	\$3.8 million
2. The DM stated costs were determined reasonable based on information developed by PO. No documentation existed to support this statement.	\$1.5 million
3. No DM on file.	\$7.4 million
4. The cost was determined reasonable by comparing service fees charged by two servicing agencies. The total cost of the project was not considered.	\$16.7 million
5. The DM justified the contract by indicating the servicing agency requires its contractors to charge competitive labor rates. The total cost of the project was not considered.	\$10.6 million
6. The DM indicated costs were reasonable because the servicing agency awarded its contracts competitively, and cost reasonableness was determined then. The cost of the work required by EPA was not considered.	\$4.2 million

Source: EPA decision memoranda, PO files, and interviews with POs. "Project Total" represents value at time sample was selected.

Alternatives Not Always Identified

Agency guidance requires POs to consider alternatives before deciding to enter into an interagency agreement. This consideration is needed to ensure that the procurement method used provides the best value to the government. It has been a longstanding goal of Federal contracting to promote competition as a means of saving money. Discussions with the POs and a review of the DMs disclosed that POs did not adequately determine if there were other alternatives available in five of the nine IACs we reviewed.

Table 2-2: Procurements with Inadequate Consideration of Alternatives

OIG Analysis	
1.	No market research conducted to identify alternatives. The original IAC was awarded in 1994. Because the program office was concerned about program disruption, it renewed the IAC with the same serving agency in 2000 and 2005.
2.	DM indicated regional office initiating this procurement considered several other vendors, but concluded they lacked the needed expertise. Documentation was not available to support this statement. The purpose of this procurement was to obtain photocopying, mailroom, and shipping support for an EPA regional office. While the DM considered these vendors unqualified, other Federal agencies and EPA offices obtained similar services from the same vendors.
3.	The program office specified it wanted to use a Government-wide acquisition contract, but did not indicate why. DM did not address why the services could not be acquired directly by EPA's contracting staff. The Task Order was awarded to the incumbent.
4.	No DM was on file justifying the use of an IAC.
5.	DM did not address why the services could not be acquired directly by EPA's contracting staff. A portion of these services were obtained from a vendor that had previously performed similar services for EPA.

Source: EPA decision memoranda, PO files, and interviews with POs

IACs Chosen for Speed and Convenience

Some POs stated that they prefer the speed and convenience of an IAC rather than working with EPA's contracting staff to acquire services directly. They also believed that acquiring services through a traditional EPA contract is labor-intensive and can take several extra months, while using an IAC can take a matter of weeks. The ease of entering into an IAC contributed to the inadequate cost reasonableness determinations. For example, project officers believed cost reasonableness assessments were unnecessary because the servicing agency awarded its contract on a competitive basis, or because contractors are required to charge competitive rates. We disagree. EPA needs to evaluate the reasonableness of the total cost of the proposed work requested by EPA under an IAC, as well as use its own IGCE as a basis for determining cost reasonableness under different alternatives.

Servicing agencies market the speed and convenience of IACs to potential clients. For example, the U.S. Department of the Treasury (Treasury) advertises that its

Franchise Fund¹ offers the service Federal managers need “with the speed, autonomy, and convenience” they deserve. Conversely, the convenience and autonomy of IACs also increase risk. For example, an EPA contract can last for up to 5 years, after which a new contract must be awarded if additional work is needed. For two of the nine IACs we reviewed, one had been in place for 7 years, and the other had been in place 12 years.

Impacts of IAC Speed and Convenience

The speed and convenience of IACs has an associated cost. EPA is generally charged a fee when using these contracts. For the IACs we reviewed, the fees ranged from no fee to 6.7 percent, and there was often little or no indication that EPA’s POs considered using in-house contracting to avoid paying the servicing agency a fee.

IACs have limited oversight. The decision to enter into an IAC is made in the program office. Once that decision is made, GAD’s role is primarily an administrative function. GAD does not verify the accuracy and completeness of the statements made in DMs. GAD does conduct periodic reviews of IACs to ensure each element of the DM has been addressed, but does not review the documentation supporting the statements made in the DM.

In addition, POs have not been required to provide supporting documentation for their DMs. EPA guidance only requires the DM to include a summary of a detailed cost reasonableness determination that is maintained in the program office. Cost reasonableness assessment summaries in the DMs were often broad and vague, and in several cases there was little or no evidence of the cost reasonableness assessment in the project file.

IAC Guidance and Training Limited

EPA has developed guidance and training on how to manage the risks of IAGs as a whole, but limited guidance exists on managing the risks of IACs. Additional guidance and training could help POs manage the risks associated with IACs.

The training that GAD provided to POs who manage IACs has historically focused on managing grants and assistance agreements. Several of the POs we interviewed stated that the required training provided by EPA does not adequately prepare them to properly oversee their IACs. They consider the training to be a general overview of IAGs, rather than a “how to.” For example, although GAD guidance requires POs to conduct a cost reasonableness assessment, the guidance neither trains POs on how to conduct such assessments, nor how to develop an IGCE. Recently, GAD separated its previous training course into a course for

¹ Franchise Funds were authorized by the Government Management Reform Act of 1994, and created to provide common support services required by many Federal agencies. Treasury advertises its Franchise Funds to other Federal agencies through promotional materials, such as those found on the Website advertising these services.

grants and a separate course for interagency agreements. Even with this change, many POs managing IACs still consider this training inadequate.

OAM establishes the policies, procedures, and operations of EPA's contracts management program, and requires staff who manage contracts to attend Contracting Officer Representative training. This training is designed to establish the foundation needed to effectively manage contracts. As of October 2005, all Contracting Officer Representatives at civilian agencies must obtain 40 hours of continuous learning every 2 years to keep their certification current. Some servicing agencies require EPA POs to be designated as a Contracting Officer Representative. GAD needs to require POs of IACs to attend training similar to that which is required of Contracting Officer Representatives.

We reviewed the Performance Appraisal and Recognition System documents of the POs managing the IACs in our sample, and found these POs were generally not evaluated on how well they managed IACs. GAD recently recognized the importance of holding POs of assistance agreements accountable for their performance. To accomplish this, GAD developed guidance on formulating performance standards for these POs. Similar action needs to be taken to increase accountability for POs of IACs.

Unnecessary IACs Cost EPA Money

Cost savings are possible by acquiring services directly through EPA contracts staff rather than entering into IACs and paying fees to other Federal agencies. For example, one EPA regional office contracted for personnel to operate its Mail, Copy, and Shipping Department through an IAC with Treasury. Had the regional office acquired these services directly, it could have saved almost \$217,000. The IAC has been in place for 7 years, and we calculated costs savings of approximately \$31,000 per year. This represents nearly 13 percent of the cost incurred through Fiscal Year 2006.

Treasury awarded the task order for EPA's mailroom services to a large temporary help services company, and charged the regional office a service fee of almost 7 percent for use of its contract. EPA's DM stated that "other agencies and vendors considered lacked the expertise required to perform these duties." One source that the regional office considered unqualified was NISH,² one of two central nonprofit agencies used by the Javits-Wagner-O'Day program.³ Several other EPA offices and Federal agencies acquired similar services through NISH. Had the regional office acquired these services directly through nonprofit agencies administered by the Javits-Wagner-O'Day program rather than entering into an IAC with Treasury, it would have saved money.

² NISH is no longer an acronym, but at one point stood for the National Industries for the Severely Handicapped.

³ The Javits-Wagner-O'Day program provides employment opportunities for over 45,000 Americans with severe disabilities. The program orchestrates Government purchases of products and services provided by nonprofit agencies employing disabled individuals. The program recently changed its name to AbilityOne.

Interagency Contract Inappropriately Awarded

EPA's Office of Pollution Prevention and Toxics inappropriately entered into an IAC with the U.S. Department of Energy's (DOE's) Oak Ridge National Laboratory to obtain risk assessments. The laboratory is a Federally Funded Research and Development Center that provides other Federal agencies highly specialized DOE services and technical expertise. According to FAR 35.017, a Federally Funded Research and Development Center may perform work for other agencies when the work is not otherwise available from the private sector. These requirements are set forth in Federal regulations because it is not the Government's intent that a Federally Funded Research and Development Center use its privileged information or access to facilities to compete with the private sector.

The original IAC was awarded in 1994 and renewed in 2000. The program office expended \$3.4 million to obtain risk assessments under the renewed IAC. In 2005, the IAC was renewed again with an estimated cost for risk assessments of \$2 million per year. The Office of Pollution Prevention and Toxics's justification for the IACs indicated that private sector contractors were capable of providing the services, but the Oak Ridge National Laboratory was cost effective and had highly technical experts on-hand. To corroborate information in the DM, we identified existing EPA contracts that provided similar capability at less cost, and the PO confirmed that the work acquired through DOE was available from private sector contractors. As a result, according to the FAR, the IAC with DOE was inappropriate. We estimate that EPA could have saved between 3 and 30 percent of the cost of these IACs had the program office procured these services directly.

It is significant to note that EPA program offices have entered into other IAGs with DOE's Oak Ridge National Laboratory. EPA needs to determine if these agreements were also inappropriately awarded.

PO Changes Lack Continuity

In some cases, new POs that assumed responsibility for ongoing IACs did not receive sufficient information from the previous PO to effectively carry out their duties. For example, one PO took over an IAC in March 2005, but did not obtain the previous PO's file until we contacted him in June 2006. In another case, the PO's file did not contain the original executed IAC or DM. His file also did not contain several amendments to the IAC and many of the invoices processed by the previous PO.

Fees Paid to Servicing Agencies Not Identified

EPA does not collect data on the amount of fees paid to other agencies for IACs. For the IACs in our sample, GAD could not provide data on the total cost of fees paid to servicing agencies. GAD told us that such information is not collected by

them, and in some cases POs were unaware how much servicing agencies charged EPA for the use of IACs. Without such information, EPA cannot effectively determine the costs and benefits of interagency contracting.

IAC Services and Processes Improved

In February 2000, EPA expressed concern that POs did not have detailed cost information to approve invoices timely. In several cases we reviewed, POs received detailed cost information to support approval of invoices. EPA provides POs with an electronic and hardcopy notification when their approval is needed for payments. However, these notifications are in summary form, and do not provide the cost details POs need to approve invoices. EPA POs often obtain the necessary information from the servicing agency and/or contractor. One significant exception was noted. For one IAC, EPA did not receive supporting cost information from the servicing agency or the contractor for invoices. Despite this lack of information, all invoices – totaling over \$2 million – were paid. For one invoice, the PO noted in an email that EPA had “...received absolutely nothing...” in terms of support for payment of invoices, yet he approved the invoice based on a recommendation from another staff member knowledgeable about the IAC.

The statements of work reviewed for IACs in our sample were congruent with the statements of work between the servicing agency and its contractors providing the work to EPA. The underlying contracts, task orders, or programmatic information obtained indicated that the statements of work between EPA and the servicing agencies were within the scope of the underlying contracts.

In most cases, EPA POs were satisfied with the services provided under IACs. POs stated that the timelines and quality of the services provided by contractors met expectations.

Recommendations

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

1. Provide guidance to project officers for developing IGCEs or other appropriate cost information, as well as cost reasonableness assessments. These assessments should include an analysis of the fees paid to servicing agencies.
2. Ensure GAD requires that the IAG decision memorandum better explains why an IAG is more cost effective, and include an evaluation of cost reasonableness assessments in GAD’s oversight reviews of IAG management.

3. Provide guidance to POs for identifying alternatives to the contracting vehicle selected. OAM's Contracts Management Manual addresses market research and should be consulted for guidance.
4. Strengthen the existing training to include how to develop IGCEs or other appropriate cost information, conducting cost reasonableness assessments, and identifying alternatives.
5. Work with program officials to ensure that PO performance standards reflect their responsibilities for managing interagency contracts.
6. Review EPA IACs with Federally Funded Research and Development Centers to ensure they were appropriately awarded and develop guidance for program offices when considering an IAC with these centers.
7. Emphasize to program offices the importance of maintaining a complete file, and providing a copy to the successor Project Officers as required by the recently published EPA Order regarding IAGs.

Agency Comment and OIG Evaluation

The EPA Office of Administration and Resources Management (OARM) agreed with all but one of our draft report recommendations. For our second recommendation, OARM proposed an alternate action that we believe will accomplish the intent of our draft report recommendation. Accordingly, we modified this recommendation. OARM elected to defer immediate action on some of the recommendations pending the issuance of Government-wide guidance by OMB's Office of Federal Procurement Policy (OFPP). OARM staff contacted OFPP and was informed that OFPP expects to issue, within the next several months, a guidance document on roles and responsibilities on interagency contracting and a model interagency agreement. We recognize the interest in interagency contracting by OFPP as a result of the work by both GAO and other Federal agency inspectors general. We are pleased that OFPP will soon be issuing a guidance document on this important area, and agree with EPA in its decision to defer implementation of some corrective actions pending the guidance document.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	9	Provide guidance to project officers for developing IGCEs or other appropriate cost information, as well as cost reasonableness assessments. These assessments should include an analysis of the fees paid to servicing agencies.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
2	9	Ensure GAD requires that the IAG decision memorandum better explains why an IAG is more cost effective, and include an evaluation of cost reasonableness assessments in GAD's oversight reviews of IAG management.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
3	10	Provide guidance to POs for identifying alternatives to the contracting vehicle selected. OAM's Contracts Management Manual addresses market research and should be consulted for guidance.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
4	10	Strengthen the existing training to include how to develop IGCEs or other appropriate cost information, conducting cost reasonableness assessments, and identifying alternatives.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
5	10	Work with program officials to ensure that PO performance standards reflect their responsibilities for managing interagency contracts.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
6	10	Review EPA IACs with Federally Funded Research and Development Centers to ensure they were appropriately awarded and develop guidance for program offices when considering an IAC with these centers.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		
7	10	Emphasize to program offices the importance of maintaining a complete file, and providing a copy to the successor Project Officers as required by the recently published EPA Order regarding IAGs.	O	Assistant Administrator, Office of Administration and Resources Management	TBD		

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

Details on Scope and Methodology

We reviewed various IAG guidance documents, including IAG Policy documents, the FAR, Grants Policy Issuances, EPA Orders, the IAG Policy and Procedures Compendium, the IGCE Guide prepared by OAM, and the Office of Federal Procurement Policy’s Policy Letter on new training and requirements for Government-wide contracting personnel.

We reviewed the files for a judgmental sample of 10 Funds-Out IACs open in either Fiscal Year 2005 or 2006 (see Table A-1). We conducted site visits to GAD headquarters and regional offices that awarded these IACs. We coordinated with the Office of Grants and Debarment to determine if the POs assigned to our sample were certified as POs. We reviewed the DMs and Determination and Finding (for Economy Act IACs) to determine whether the decision to use an IAC was adequately documented. We reviewed cost reasonableness determinations, and any alternatives to the vehicle selected identified in the DM. We reviewed all available underlying contracts, task orders, or programmatic information for the IACs in our sample to determine whether the statement of work for the IAC was within the scope of the underlying contract awarded by the servicing agency.

Table A-1: Sampled Interagency Contracts

DW - 97-93986601
DW - 75-93823701
DW - 89-93882001
DW - 96-93890501
DW - 47-92220701
DW - 13-93882401
DW - 96-94030701 *
DW - 47-94009901
DW - 20-95031301
DW - 47-95036401

* Discarded because it did not meet the definition of an IAG.

Source: EPA’s GAD

We also reviewed invoices billed to determine the fees charged by the servicing agency and whether the invoices were adequately supported by cost details. We reviewed the GAD protocol used and the results of a Comprehensive Grants Management Review conducted by GAD. For one IAC, we reviewed EPA’s database of existing contracts to determine if there were EPA contracts that contained a similar statement of work. We confirmed this information with EPA Contracting Officers, and reviewed cost information for these existing contracts to determine whether potential cost savings could have been realized had EPA acquired the services directly. We reviewed Performance Appraisal and Recognition System agreements to determine if it included PO responsibilities for managing IACs.

Internal Control Structure

In planning and performing this audit, we reviewed management controls related to our audit objective. This included EPA’s policy and procedures for administering and managing the IACs issued by the EPA Office of Grants and Debarment. As part of this review, we examined EPA’s Fiscal Year 2005 Federal Managers’ Financial Integrity Act Annual Assurance Letters issued by the EPA Assistant Administrator for the Office of Administration and Resources Management. In April 2005, the Agency conducted an internal IAG file review and reviewed open and closed IAGs in IGMS; and reviewed PO designations, training, and certifications. The review noted potential vulnerabilities in the IAG files and close-out of outstanding open IAGs. The Agency has begun to address the issues to ensure that all files are in compliance with Agency guidance and policy and that open IAGs are monitored and closed out within required timeframes.

EPA Response to Draft Report

MEMORANDUM

SUBJECT: Draft Audit Report:
Interagency Agreements to Use Other Agencies' Contracts
Need Additional Oversight
(Assignment No. 2006-001052, February 14, 2007)

FROM: Luis A. Luna
Assistant Administrator

TO: Carl A. Jannetti
Director, Contract Audits

Thank you for the opportunity to provide our comments and perspectives on the Draft Audit Report. I am pleased that the Report recognizes the steps EPA has taken to improve its administration of interagency agreements (IAGs). This includes the recent issuance of EPA Order 1610, which will strengthen the Agency's management of IAG no-cost amendments, invoices and close-out. I am also pleased with the Report's conclusions about the timely, quality work performed under interagency contracts supported by IAGs and the availability of sufficient information for IAG invoice approval.

The Report contains a number of other findings regarding the oversight of IAGs involving interagency contracts. Specifically, it finds that in some cases the Agency may have entered into some of these IAGs without conducting cost reasonableness assessments, or identifying alternatives, such as determining whether EPA's in-house acquisition staff could acquire the services/products at a lower cost. Additionally, the Report concludes that newly assigned project officers to existing interagency contracts did not always receive a complete file for effective contract management and EPA did not collect data on the interagency contract fees paid to other agencies.

The Report presents seven recommendations to address these findings. OARM's response to these recommendations is presented below.

Recommendation #1: Provide guidance to project officers for developing appropriate cost information, as well as cost reasonableness assessments, including an analysis of the fees paid to servicing agencies.

OARM Response: OARM agrees with this recommendation, but will defer immediate action pending the issuance of government-wide guidance by the Office of Federal Procurement Policy (OFPP). OARM staff has contacted OFPP and has been informed that they expect to issue, within the next several months, a guidance document on roles and responsibilities on interagency contracting and a model interagency agreement.

Recommendation #2: Ensure that the Grants Administration Division (GAD) reviews cost reasonableness assessments.

OARM Response: OARM disagrees with this recommendation. GAD should not routinely review cost reasonableness assessments, since the preparation and review of those assessments is a program office responsibility. However, GAD will: (1) require the IAG decision memorandum submitted by program offices to better explain why an IAG is more cost-effective; (2) include an evaluation of cost reasonableness assessments in GAD's oversight reviews of IAG management; and (3) incorporate, as appropriate, the expected OFPP guidance in the Agency's IAG procedures.

Recommendation #3: Provide guidance to Project Officers (POs) for identifying alternatives to an IAG.

OARM Response: OARM agrees with this recommendation, but will defer immediate action pending issuance of the OFPP guidance.

Recommendation #4: Strengthen existing training to include how to develop appropriate cost information, conduct cost reasonableness assessments, and identify alternatives.

OARM Response: OARM agrees with this recommendation, but will defer making major training changes pending issuance of the OFPP guidance.

Recommendation #5: Work with program officials to ensure that PO performance standards reflect their responsibilities for managing IAGs.

OARM Response: OARM agrees with this recommendation and will work with Senior Resource Officials to ensure that IAG responsibilities are referenced, as appropriate, in PO performance agreements as part of the 2008 Performance Assessment Rating System process.

Recommendation #6: Review EPA IAGs with Federally Funded Research and Development Centers to ensure they were appropriately awarded and develop guidance for program offices when considering an IAG with these centers.

OARM Response: OARM agrees with this recommendation and will work with the Office of General Counsel to develop the necessary guidance.

Recommendation #7: Emphasize to program offices the importance of maintaining a complete file, and providing a copy to their successor as required by the recently published EPA Order.

OARM Response: The Office of Grants and Debarment (OGD) will continue to emphasize the importance of this requirement in its project officer training on EPA Order 1610.

Thank you for the opportunity to comment on the Report. If you have any questions about these comments, please contact Howard Corcoran, Director, OGD, at (202) 564-1903.

cc: Senior Resource Officials
Grants Management Officers
Junior Resource Officials
Richard Kuhlman
Steve Pressman
Richard Feldman
Kenneth Redden
Chuck Gherardini
Bruce Binder
Jeanne Conklin
John Nolan
Laurice Jones

Distribution

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