



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA Needs to Strengthen Oversight of Government Furnished Property

Report No. 2006-P-00035

September 19, 2006

Report Contributors:

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Abbreviations

DCMA	Defense Contract Management Agency
EPA	U.S. Environmental Protection Agency
FAR	Federal Acquisition Regulation
GFP	Government Furnished Property
OAM	Office of Acquisition Management
OIG	Office of Inspector General



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted this audit to assess the effectiveness of the U.S. Environmental Protection Agency's (EPA's) management of Government furnished property (GFP). We specifically sought to determine whether EPA properly manages GFP.

Background

As of September 30, 2005, EPA's contractor-supplied records indicated about \$110 million in EPA-provided GFP for 153 contracts. Of this amount, about \$70 million was for items costing \$25,000 or more. EPA can either perform GFP property administration functions itself or have the functions performed by the Defense Contract Management Agency (DCMA) through an interagency agreement.

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/2006/20060919-2006-P-00035.pdf

EPA Needs to Strengthen Oversight of Government Furnished Property

What We Found

EPA's Office of Acquisition Management (OAM) needs to improve its management and administrative controls over GFP. OAM did not have accurate and reliable records to indicate:

- Which contractors had received EPA-provided GFP,
- The dollar value of the GFP provided, or
- Whether contractors had performed the required annual inventories.

OAM also needs to improve the administration of its interagency agreement with DCMA. OAM did not have accurate records of contracts with GFP to compare against the DCMA listing of contracts that DCMA was overseeing. As a result, some contracts with GFP were not being administered by either OAM or DCMA, and OAM had paid DCMA to administer GFP for some contracts that did not have any GFP. These conditions generally occurred due to outdated policies and procedures that did not assign specific responsibility for GFP property administration. Improved management controls will enable EPA to better manage its \$110 million of GFP provided to contractors and reduce GFP vulnerability to loss.

What We Recommend

OAM agreed to strengthen its policies and procedures, as well as its administration of the interagency agreement with DCMA, and initiated corrective actions while our audit was in progress. We recommend that the Assistant Administrator for Administration and Resources Management ensure OAM completes current efforts to update policies and procedures regarding management of GFP, including the need to maintain accurate records and properly administer interagency agreements with DCMA. The Assistant Administrator's response indicated general agreement with our report and concurrence with our recommendation.



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

OFFICE OF
INSPECTOR GENERAL

September 19, 2006

MEMORANDUM

SUBJECT: EPA Needs to Strengthen Oversight of Government Furnished Property
Report No. 2006-P-00035

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 \$116,760.

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 202-566-0847 or roderick.bill@epa.gov, or Carl Jannetti, the Product Line Director for Contract Audits, at 215-814-5800 or jannetti.carl@epa.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill A. Roderick", written over a horizontal line.

Bill A. Roderick
Acting Inspector General

Table of Contents

Purpose	1
Background	1
Scope and Methodology	1
Results of Review	1
<i>OAM Records Inaccurate and Unreliable</i>	2
<i>Interagency Agreement with DCMA Needs Improved Administration</i>	3
Corrective Actions Taken	4
Recommendation	4
Agency Response and OIG Comment	4
Status of Recommendations and Potential Monetary Benefits	6

Appendices

A Details on Scope and Methodology	7
B Full Text of Agency Response.....	8
C Distribution.....	10

Purpose

The U.S. Environmental Protection Agency (EPA) often uses contractors to accomplish its environmental goals. In most cases, contractors supply the equipment needed to complete their contracts. However, there are instances in which EPA provides the equipment – known as Government furnished property (GFP) – to the contractors. Our objective was to determine whether EPA properly manages GFP.

Background

As of September 30, 2005, contractor-supplied records indicated that about \$110 million in EPA-provided GFP was in the possession of 153 contractors. Of this amount, about \$70 million was for property items costing \$25,000 or more, including such items as trace analyzers, remote sensors, and geo-probe systems. Much of the property costing under \$25,000 is expendable and includes small appliances, clamps, shop vacuums, and respirators. EPA's Office of Acquisition Management (OAM), within the Office of Administration and Resources Management, is responsible for managing GFP.

Federal Acquisition Regulation (FAR), Part 45, *Government Property*, prescribes the policies and procedures for providing and managing GFP. Contractors are responsible for the GFP in their possession, and for maintaining adequate systems to inventory, control, protect, and maintain it. EPA's Contracts Management Manual, Chapter 45, *Government Property*, requires contracting officers to perform property administration functions for contracts for which EPA provides GFP. Contracting officers have discretion to perform these functions themselves or have them performed by the Defense Contract Management Agency (DCMA). In August 1993, EPA entered into an interagency agreement with DCMA to administer GFP in the possession of EPA contractors.

Scope and Methodology

We performed this audit from November 2005 through March 2006, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit included site visits to OAM headquarters, where we met with management and staff responsible for the oversight and control of GFP. Further details on our scope and methodology, including our scope limitations and review of internal controls structure, are in Appendix A.

Results of Review

OAM needs to improve its management and administrative controls of GFP. OAM did not have accurate and reliable records to indicate:

- Which contractors had received EPA-provided GFP,
- The dollar value of the GFP provided, or
- Whether contractors had performed the required annual inventories.

OAM also needs to improve the administration of its interagency agreement with DCMA. OAM did not have accurate records of contracts with GFP to compare against the DCMA listing of contracts that DCMA was overseeing. As a result, some contracts with GFP were not being administered by either OAM or DCMA, and OAM had paid DCMA to administer GFP for some contracts that did not have any GFP provided. These conditions generally occurred due to outdated policies and procedures that did not assign specific responsibility for GFP property administration. Improved management controls will enable EPA to better manage its \$110 million of GFP provided to contractors and reduce GFP vulnerability to loss.

OAM Records Inaccurate and Unreliable

EPA did not maintain information indicating which of its contracts had GFP. EPA's Contracts Management Manual requires contracting officers to maintain a Contract Property Management Database that lists each GFP item and the amount of contractor-held property for each contract. OAM's Contract Property Management Database should be updated whenever there is activity that affects property management, such as the award of a contract that provides property, receipt of an annual property report, or delegation of property administration to DCMA. Each September, contractors are required to prepare an annual inventory report for each contract to update the amount of GFP in their possession. This report is to be used by contracting officers in updating the Contract Property Management Database, as well as for EPA's financial statements.

OAM is not required to request annual reports from all of its contractors. Rather, OAM contracting officers are required to request annual property reports only for contracts that contain a property clause (FAR 52.245-5 or EPA Acquisition Regulation 1552.245-73d). Since EPA does not maintain the Contract Property Management Database required by the manual to verify the amounts of GFP with contractors, OAM uses the inventory reports it receives from contractors to identify the contractors with GFP and the dollar value of the GFP they possess.

As of September 30, 2005, EPA reported it had over 870 active contracts, and estimated about 650 were cost-type contracts with property clauses requiring the contractor to submit inventory reports. The OAM property officer indicated that he asked EPA's contracting officers to obtain inventory reports for all 650 contracts, but only received reports for about 400 contracts. OAM did not determine whether the remaining 250 contracts had GFP. Therefore, OAM's inventory reports indicating that \$110 million in GFP had been provided under 153 contracts only took into account potential GFP under 400 active contracts, not all 650 contracts with the property clauses.

As a result, OAM does not have reliable information showing contracts with GFP, the amount and type of GFP provided to each contractor, the condition of the GFP, and whether OAM or DCMA was performing property administration.

In January 2006, to better determine the number of contracts with GFP, we requested that OAM ask its contracting officers to identify all active contracts under their purview with GFP. At that time, there were only about 770 active contracts, and OAM's contracting officers indicated 138 had GFP. Nine of those were contracts that had been awarded prior to September 30, 2005, but had not been included in the 153 contracts previously reported to have GFP. Neither the survey of contracting officers nor OAM's inventory reports provide information regarding the amount

of GFP expended, added to contracts, provided with new contract awards, or applicable to contracts closed that year. As a result, OAM cannot determine or report which contracts have GFP as well as the amount and condition of the GFP. This data is essential for accurate reporting of contractor-held property in EPA's financial statements.

Interagency Agreement with DCMA Needs Improved Administration

OAM did not have accurate records to compare against the DCMA listing of contracts that DCMA was overseeing. Contractors are responsible and accountable for GFP in their possession. This includes keeping the Government's official records of GFP. These responsibilities dictate that contractors maintain internal control systems to record receipt of equipment and its use, perform annual inventories, reconcile physical inventories to an entity's inventory records, and investigate lost or damaged items.

According to EPA's Contracts Management Manual, property administration functions to be performed by EPA are to include:

- Reviewing property control systems and procedures, such as property management, acquisition, receiving, identification, records, movement, storage, physical inventories, consumption, utilization, maintenance, subcontractor control, disposition, and contract closeout.
- Reviewing, approving, or withholding approval of a contractor's GFP management procedures.
- Investigating reports of lost, damaged, or destroyed GFP.
- Reviewing inventory schedules and monitoring disposal of excess GFP.

OAM contracting officers are to either review and approve each contractor's property management systems or delegate that responsibility to DCMA under interagency agreements that have been issued since 1993. OAM contracting officers are required to perform risk assessments as the basis for delegating the responsibility to DCMA, and contracts with significant dollar values of GFP or that are higher risk should be delegated to DCMA.

While OAM's records indicated 153 contracts provided GFP, DCMA's separate records indicated it was administering GFP on 120 EPA contracts. Our comparison of the records disclosed that only 61 of EPA's 153 GFP contracts were being administered by DCMA according to DCMA records. For the remaining 92 contracts not on the DCMA list (153 minus 61), several contracting officers indicated they believed a DCMA or OAM property officer was administering the GFP. However, we found that none of those 92 had been delegated to DCMA responsibility, and subsequent discussions with OAM's property officer indicated he also was not administering the GFP for these contracts. Further, OAM's property officer could not provide a list of contracts for which he performed property administration.

Further analysis of the 120 contracts for which DCMA performed property administration under EPA's interagency agreement disclosed that 40 of the contractors had not submitted annual property reports to EPA. As a result, OAM did not know whether these contractors had GFP. Also, 19 of the contracts on DCMA's list had no GFP, according to EPA's records. A

subsequent review of DCMA billings to EPA for Fiscal Year 2005 disclosed that EPA paid approximately \$10,000 to DCMA to administer GFP on contracts with no GFP. Discussions with contracting officers for five contracts indicated that the risk assessments required by EPA policy had not been performed before delegating these contracts to DCMA.

Corrective Actions Taken

OAM needs to revise its policies and procedures to address the issues we encountered. OAM has agreed to strengthen its policies and procedures, as well as its administration of the interagency agreement with DCMA, and initiated corrective actions while our review was in progress. Revisions to the Contracts Management Manual are in process, and OAM estimates the revisions will be completed by December 2006. OAM agrees its current system of summarizing inventory reports received on an annual basis is ineffective, and plans to require creation of a database that will provide a quarterly listing of all contracts with GFP. OAM has identified all of the contracts being administered by DCMA that do not have GFP and initiated action to remove them from DCMA's purview. This action should prevent EPA from making future payments to DCMA for administering contracts without GFP. OAM created a risk assessment checklist to document the decision-making process of whether the property administration should be performed by its own staff or delegated to DCMA. In lieu of these corrective actions already being initiated by OAM, we are not making any recommendations other than to complete corrective efforts already in process. We also suggest that OAM discuss the status of these initiatives in its Fiscal Year 2007 Financial Management Integrity report.

Recommendation

1. We recommend that the Assistant Administrator for Administration and Resources Management ensure OAM completes current efforts to:
 - update policies and procedures regarding GFP management; and
 - maintain accurate records and properly administer interagency agreements with DCMA.

Agency Response and OIG Comment

OAM stated it will develop additional procedures to ensure that contractors submit the required annual summary property reports on a timely basis, and will follow up with any contractors that do not respond. OAM said it expects to complete its Fiscal Year 2006 followup efforts by December 31, 2006. OAM said it will also take action to maintain and periodically update a listing of active contracts that have GFP, noting it has been doing this on a manual basis so far. OAM indicated automating this listing should be completed by approximately March 31, 2007.

OAM agreed that its property records are not accurate and need to be improved. Over the past year, OAM said it has been working hard to improve in this area. OAM now has a Contract Property Coordinator who performs a risk assessment on each contract that may potentially have GFP, to determine whether the property administration function should be delegated to DCMA. The Contract Property Coordinator is working with DCMA to close/rescind delegations on

contracts that do not have property, and ensure that DCMA is delegated administration over contracts that have significant GFP. OAM said these efforts will (1) allow OAM to reconcile its property records with those of DCMA, which will eliminate one area of concern for the OIG, and (2) provide an accurate database and internal control that will help OAM determine which contracts need property reviews by DCMA. This will significantly help OAM in managing the interagency agreement properly. OAM said the Contract Property Coordinator is also working to determine the level of property administration needed for contracts that have GFP but were not delegated to DCMA because of their low risk level.

OAM said it expects to complete the reconciliation of its records with DCMA and have an automated, accurate database for use in determining the contracts that need property reviews by March 31, 2007. Determining the level of property administration needed for contracts not delegated to DCMA is an ongoing process, which OAM said it will continue to perform as needed.

The Agency's response indicates a commitment to improve its administration of GFP. The corrective actions taken and planned should improve the administration of GFP that EPA provides to its contractors.

The full text of the Agency's response is in Appendix B.

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	4	Ensure OAM completes current efforts to: <ul style="list-style-type: none"> • update policies and procedures regarding GFP management; and • maintain accurate records and properly administer interagency agreements with DCMA 	O	Assistant Administrator for Administration and Resources Management	03/31/07	\$20*	\$20*

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

* This amount represents \$10,000 a year for 2 years for the recurring potential monetary benefits

Details on Scope and Methodology

To determine whether EPA provided and managed GFP in accordance with applicable regulations and requirements, we reviewed the FAR, EPA Acquisition Regulations, EPA's Contracts Management Manual, and applicable EPA FAR deviations. We interviewed personnel in OAM headquarters, contracting officers, and the Contract Property Coordinator to ascertain the processes used to oversee and manage GFP. We compared EPA's documented processes to its actual practices for GFP and discussed significant differences with OAM personnel.

We reviewed the 2005 annual GFP inventory reports received from contractors, Contract Property Database spreadsheets, and Financial Data Warehouse information. We reviewed the December 2005 survey of contracting officers performed by OAM, which OAM performed to determine whether its property records were complete. We analyzed the lists of contracts EPA delegated to DCMA for property administration, and the contracts for which EPA performed the administration of GFP. We also reviewed DCMA billings submitted to EPA in Fiscal Year 2005, and interviewed a sample of contracting officers about their property management practices.

We are not aware of any prior reports specifically related to this report's review objective.

Limitations

Our scope was limited to evaluating whether OAM properly manages GFP in the possession of contractors. We did not determine whether the Agency acquires or disposes of GFP in accordance with FAR, because EPA did not properly maintain its Contracts Property Management Database. The information, which OAM is required to enter into the database, was critical to achieving the audit objective of whether EPA properly approved contractor requests for acquiring or disposing of GFP. Thus, we were not able to review that issue.

Internal Control Structure

In planning and performing this audit, we reviewed management controls related to our objective. This included EPA's and DCMA's procedures for administering the GFP for contracts under the control of both agencies. As part of this review, we examined EPA's Fiscal Year 2005 Federal Managers' Financial Integrity Act Annual Assurance Letters issued to the EPA Administrator for the Office of Administration and Resources Management. We did not identify any internal Agency reviews addressing GFP.

Full Text of Agency Response

MEMORANDUM

SUBJECT: Response to Draft Audit Report: EPA Needs to Strengthen Oversight of Government-Furnished Property (GFP)

FROM: Luis A. Luna
Assistant Administrator

TO: Carl A. Jannetti
Director, Contract Audits

Thank you for the opportunity to submit comments on the draft report entitled “EPA Needs to Strengthen Oversight of Government-Furnished Property.” We are in general agreement with the draft report. We concur with your recommendations, and offer the following comments:

Recommendation: We recommend that the Assistant Administrator for Administration and Resources Management ensure OAM complete current efforts to review and update policies and procedures regarding management.

Response: We concur. OAM will develop additional procedures to ensure that contractors submit the required annual summary property reports on a timely basis, and will follow up with any contractors that do not respond. We expect to complete our FY 2006 follow-up efforts by December 31, 2006. OAM will also take action to maintain and periodically update a listing of active contracts that have GFP. We have been doing this on a manual basis so far. Automating this listing should be completed by approximately March 31, 2007.

Recommendation: We recommend that the Assistant Administrator for Administration and Resources Management ensure OAM complete current efforts to maintain accurate records and properly administer interagency agreements with the Defense Contract Management Agency (DCMA).

Response: We agree that our property records are not accurate, and need to be improved. Over the past year, OAM has been working hard to improve in this area. We now have a Contract Property Coordinator (CPC) who performs a risk assessment on each contract that may potentially have GFP, to determine whether the property administration function should be

delegated to DCMA. The CPC is working with DCMA to close/rescind delegations on contracts that do not have property, and ensure that DCMA is delegated administration over contracts that have significant GFP. These efforts will: (1) allow OAM to reconcile its property records with those of DCMA, which will eliminate one area of concern for the OIG; and (2) provide an accurate data base and internal control that will help OAM determine which contracts need property reviews by DCMA. This will significantly help us in managing the interagency agreement properly. The CPC is also working to determine the level of property administration needed for contracts that have GFP, but were not delegated to DCMA because of their low risk level.

We expect to complete the reconciliation of our records with DCMA, and have an automated, accurate data base for use in determining the contracts that need property reviews, by March 31, 2007. Determining the level of property administration needed for contracts not delegated to DCMA is an ongoing process, which we will continue to perform as needed.

OAM will continue its current efforts to improve the oversight of Government-furnished property (GFP). We look forward to receiving the final report, and we will respond with a plan of action that addresses your recommendations in more detail at that point.

Should you have any questions, please ~~to~~ contact Kerrie O'Hagan, Division Director of the Policy, Training, and Oversight Division in the Office of Acquisition Management, at (202) 564-4479.

cc: John Gherardini
Kerrie O'Hagan
John Oliver
Michael Richardson
John Trefry

Distribution

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