



Office of Inspector General

Audit Report

INTERAGENCY AGREEMENTS

FOLLOW-UP ON HEADQUARTERS INTERAGENCY AGREEMENTS

2000-P-0029

September 29, 2000

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Office of Environmental Information
Office of Policy and Economic Evaluation
Office of International Activities
Office of General Counsel
Office of the Chief Financial Officer**



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

OFFICE OF
THE INSPECTOR GENERAL

September 29, 2000

MEMORANDUM

Subject: Audit Report Number 2000-P-0029
Follow-up Audit On Headquarters Interagency Agreements

From: Michael E. Prater, Audit Manager
Headquarters Audit Division (2443)

To: Romulo L. Diaz, Assistant Administrator for
Administration and Resources Management (3101A)

Attached is the subject report. This report contains findings that describe problems the Office of Inspector General has identified and corrective actions the OIG recommends. This audit report represents the opinion of the OIG and the findings contained in this audit report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by the EPA managers in accordance with established audit resolution procedures. For report distribution, see Attachment 5.

ACTION REQUIRED

In responding to the draft report and during the exit conference, your office provided corrective actions, with milestone dates where applicable, for most of the recommendations. Concerning enhancements to training and the Integrated Grants Management System, we would appreciate a response to the report within 90 days of the report date. We will close this report in our tracking system when all issues have been resolved. Please track all corrective actions in the Management Audit Tracking System.

We have no objections to the further release of this report to the public.

If you or your staff have any questions, please call Sabrina Berry of Headquarters Audit Division on (202) 260-5121, or Cathy Jenson, Audit Liaison, on (202) 260-8207.

Attachment

FOLLOW-UP AUDIT ON HEADQUARTERS INTERAGENCY AGREEMENTS

INTRODUCTION

We performed this audit to determine if the Environmental Protection Agency (Agency or EPA) took action to correct problems identified in a prior audit report. That audit report, E1FMG4-13-0061-5400051, entitled Interagency Agreements: Off-Loading At EPA Headquarters and dated March 31, 1995, identified problems with procedures for initiating or accepting work or payment through interagency agreements (IAGs) authorized by the Economy Act of 1932. The report discussed funds for contract work under such IAGs which the Headquarters Grants Administration Division (GAD) awarded during September. Although the prior audit was limited to IAGs based on the Economy Act of 1932, we also evaluated IAGs based on other statutes. Attachment 1 provides information on the prior audit findings and recommendations to correct problems.

Objectives

The first objective of this audit was to determine if the problems identified in the prior audit were corrected. Since that audit report was issued, the number of IAGs authorized by the Economy Act has substantially decreased. We also evaluated IAGs authorized under other statutes. The second objective of this audit was to determine if non-Economy Act IAGs were being properly executed and managed.

Background

An IAG is a written agreement between Federal agencies under which goods or services are provided on a reimbursable basis. An IAG can also be an agreement in which the agencies set forth policies and procedures governing their relationships in areas of mutual interest and responsibility. In this second type of agreement, no transfer of funds takes place. This report applies only to the former type of IAG. Under these IAGs, an agency needing supplies or services (the requesting or ordering agency) obtains them from the other agency (the servicing agency). When EPA is the requesting agency, the IAG is a disbursement or allocation transfer-out IAG because funds appropriated for EPA are given to another agency. On the other hand, when EPA is the servicing agency, the IAG is a reimbursement or allocation transfer-in IAG because EPA will receive funds from the other agency. Thus, EPA's role under a reimbursement IAG in relation to the other agency is the reverse of its role under a disbursement IAG.

Within EPA, the roles and responsibilities of the organizations involved in the IAG are similar regardless of whether EPA is the requesting or servicing agency. Generally, each IAG must be a distinct project. The three primary organizations in EPA responsible for a particular project are the program (or regional) office, the GAD at Headquarters (or the regional grants management office), and the Cincinnati Financial Management Center (CFMC). In general, the Headquarters program office: develops and negotiates the IAG and related amendments; monitors the work, resulting products, and costs; and helps close the IAG. The program office designates the project officer, who is responsible for

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these matters. For IAGs originating in Headquarters program offices, GAD: helps the program office comply with requirements; executes the IAG and related amendments; inputs information about the IAG into the Agency's related information system; coordinates with the finance office, particularly the CFMC; and ensures that the IAG is closed. CFMC is the central servicing finance office for all payments and receipts on EPA IAGs. For additional background information, please see Attachment 2.

Scope and Methodology

We performed this audit in accordance with the U. S. General Accounting Office's Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States. We conducted the field work for this assignment from September 1999 through June 2000. We reviewed the applicable statutes and regulations, as well as guidance and policy documents prepared by EPA, and obtained information on the status of corrective actions related to the prior audit report. To evaluate current practices, we selected a sample of 55 IAGs awarded by the Headquarter GAD, for which the majority of the funds would be used by a contractor or assistance recipient. This was a statistical sample of agreements awarded in August or September 1997, or August or September 1999. For the former, we only considered disbursement IAGs assigned to project officers at Headquarters or Research Triangle Park, North Carolina. We used information from the Agency's Grants Information and Control System to identify the universe and select a sample. However, we did not evaluate the internal controls related to this system. Concerning this sample, we reviewed the files kept by the GAD and project officers, and interviewed the project officers.

Sample Of Interagency Agreements		
<u>Number of IAGs</u>	<u>Type Of IAG</u>	<u>Year Awarded</u>
28	Disbursement	1999
12	Reimbursement	1999
<u>15</u>	Disbursement	1997
<u>55</u>		

Results-in-Brief

With one exception, the Agency took corrective action to resolve problems identified in the prior audit report. The guidance or training was improved in the areas of: (1) justifying why the IAG was chosen instead of a contract; (2) ensuring that the cost of the proposed work was reasonable; and (3) obtaining detailed cost information related to payments. Current practices generally reflected these improvements, although further changes are needed in some areas. Project periods are generally limited to the required five years or less. In addition, the Office of General Counsel has concurred with the Agency practice

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of directly paying contractors of another agency. However, no progress has been made with regard to obtaining full reimbursement of costs under reimbursement IAGs. As a result, EPA continues to transfer an unknown amount of its resources to other agencies in violation of the Economy Act.

In addition to these matters, we noted several areas where guidance and training could be improved. The statutory citation used as the basis for the cooperation agreement should reflect a 1997 opinion from the Office of General Counsel. Unless properly justified, the project start date should be after both parties have signed the agreement. Project officers' files need to better document certain project activities. Finally, reimbursable work needs to be promptly budgeted and appropriately recorded in the accounting system.

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FINDINGS AND RECOMMENDATIONS

Improvements Are Needed To Support Awarding Agreements

Numerous matters must be considered before GAD awards an IAG. In the decision memorandum and related documents provided by the program office, some of these matters are better addressed than others. Generally the documentation adequately justifies why an IAG was used, contains the travel certification, and limits the project period. However, confusion exists regarding which statute should be cited as the authority for the IAG, the evaluation of the costs for the project, and the timing of the work.

The prior audit report raised concerns about why an IAG was used instead of the procurement process. To correct this situation, Agency officials revised the guidance. The decision memorandum must include a discussion of the alternatives considered and why the IAG mechanism was selected. Further, the decision memorandum must explain why the other agency was selected, or why the other agency selected EPA. We found that the decision memorandums we reviewed generally contained this information.

The prior audit report found that project periods were exceeding the five-year limit set in the guidance. For example, one agreement had a project period of over 18 years. Agency officials agreed to better enforce this limitation. Of the 55 IAGs in our sample, only one exceeded the five-year limit and that was by six days. From this we concluded that Agency management is generally complying with the five-year limit.

Statutory Citation Was Not Always Proper

We question the basis for transferring funds under five IAGs. According to Agency guidance, the decision memorandum must identify the statutory authority that is the basis for transferring funds under the IAG. Generally, the authority will be either the Economy Act of 1932 or one of EPA's "cooperation" authorities. Processing the award differs depending on which citation is used. When a Headquarters program office intends to disburse funds through the Economy Act which will obtain services under a contract of the other agency, EPA's Office of Acquisition Management must review the proposed action and approve a related determination and finding. In essence, they are agreeing that the IAG can be used instead of a procurement action. Thus, citing the incorrect authority may circumvent Agency controls. In addition, IAGs for cooperation projects often did not identify the total project costs, which is one way of demonstrating that a cooperation authority is appropriate. Further, when assistance instruments were involved, the decision memorandum frequently did not state that the other agency had adequate grant-making authority. Without such authority, using their funds for an assistance agreement could violate their appropriation limitations. In addition to reviewing files and discussing

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the use of statutory authorities with the project officers, we also consulted with our Office of General Counsel as well as the Agency's Counsel to further clarify information and resolve matters addressed in this section.

We believe one IAG that cited a cooperation authority should have cited the Economy Act, one IAG that cited a cooperation authority should have cited a different cooperation authority, and three IAGs that cited the Economy Act should have cited a cooperation authority. These five IAGs are detailed in Attachment 3. We discussed our concerns with GAD and program officials (as disclosed in the attachment).

Agency guidance and training covers selecting the proper statutory citation, but could be further clarified. Some project officers told us they were unsure about which citation to use. They often relied on either others in the program office to tell them which citation to use, or the wording of decision memorandums for earlier executed IAGs. One project officer used a table from the application package for an assistance agreement to select the statutory authority for the IAG. Although GAD explained that it is their policy to notify the project officers of any changes in statutory authority, we found cases where the GAD staff changed the citation without discussing it with program officials.

The extent of participation by the parties involved is one of the primary differences between whether a cooperation authority or the Economy Act should be cited. According to Agency guidance dated September 1996, a cooperation authority is appropriate when it is a joint project from which both will benefit. Thus, the project should be directly related to the needs and interests of both (all) agencies. The statement of work, project description, or decision memorandum should explain both (all) agencies' interest in the work. This may be evidenced by both (or several) agencies committing resources to the project. However, if one agency is providing goods or services to another with no benefit to itself, the Economy Act is the appropriate citation.

The mutual interest and joint benefits involved in a cooperation project were clarified in a July 1997 legal opinion from the Office of General Counsel. According to the opinion, if a cooperation authority is cited as the basis for an IAG, both (or several) agencies must commit resources to the project. The other agency does not have to invest actual funds in the project, but must invest some resources. The resources may be in the form of salaries, equipment, travel, contract services, or grant funds. The Agency guidance was not changed to reflect this opinion.

We found that total project costs under cooperation IAGs were generally not identified. The "Interagency Agreement / Amendment," EPA Form 1610-1, includes a section to identify resources committed by all parties to the project. Instructions for this section specify that amounts should be entered. However, the instructions were omitted from the currently available electronic version of the form. Of the 42 cooperative projects in the sample, 9 (or 21%) identified resources committed by the other agency or agencies.

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Thus, evidence of a joint effort was omitted from the IAG for the remaining 33 projects. To better support a cooperation authority citation, the IAG should identify resources provided by all parties.

Projects related to the Superfund program usually cite sections 105(a)(4) and 115 of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended, and Executive Order 12580. According to the July 1997 legal opinion, IAGs based on this authority are not subject to the requirements of the Economy Act. CERCLA and the implementing executive order, according to EPA's long-standing position, provide authority for the Agency to enter into IAGs with other agencies to carry out Superfund responsibilities.

Also exempt from the Economy Act are IAGs using Government-wide contracts authorized under section 5112(e) of the Information Technology Management Reform Act of 1996 (ITMRA). The Director of the Office of Management and Budget (OMB) is authorized under section 5112(e) to designate one or more heads of Federal agencies as executive agents for Government-wide acquisitions of information technology. According to an OMB official, four programs within three Federal agencies have been designated. Four IAGs in our sample cited ITMRA section 5112(e) and we believe these citations were proper. However, we found that it was difficult to confirm whether the contract was covered by ITMRA section 5112(e) because OMB has not published a list of designated agencies nor did the decision memorandums address the matter. For the same reason, the GAD staff find it difficult to confirm the appropriateness of citing ITMRA section 5112(e). A correct citation is important because Government-wide contracts are also awarded under other sections of ITMRA and the Economy Act does apply to them.

Statutory authority is also of concern when the IAG project includes an assistance agreement, i.e., a grant or cooperative agreement. No funds may be transferred under an IAG unless both agencies have the authority to perform the activities included under the agreement. Thus, the agencies involved must each have authority covering the assistance activity. To ensure the matter has been considered, the decision memorandum must include a statement that the other agency has adequate grant-making authority. However, we found some cases where this statement was not included. Therefore, we believe that greater emphasis should be placed on this requirement to ensure that the appropriate statement is included in the decision memorandum.

Of the 20 IAGs that involved assistance, 5 (or 25%) of the decision memorandums did not address the matter. Of these five projects, one involved international activity, so the EPA Office of General Counsel planned to review the grant-making authority before the assistance agreement was awarded. For another, the project officer had a copy of the other agency's assistance agreement and it cited their statutory authority. For the remaining three projects, there was no assurance that the other agency's grant-making authority had been confirmed.

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Cost Evaluations Should Be Documented

As required, cost was generally considered before the award of the IAG. For 12 of the 55 IAGs, an independent cost estimate was prepared to determine that the amount of the IAG was reasonable. A less detailed evaluation was performed for most of the remaining IAGs, but many of these were not documented. Such documentation is important because it: (1) supports the statement in the decision memorandum that costs are reasonable; (2) provides an additional mechanism for clarifying the scope of work; and (3) serves as a basis for future cost evaluations. Agency guidance dated September 1996 states that the decision memorandum should include, "A determination that the costs of the proposed work is reasonable based on an independent estimate of costs or other appropriate cost information **developed by EPA.**"(emphasis added) Thus, Agency guidance implies the evaluation should be documented, but does not specifically require it.

Where cost was considered but the evaluation was not documented, project officers told us the basis for determining cost reasonableness. Generally, it was based on their past experience with similar projects. Other explanations given as the basis for cost reasonableness were: discussions with EPA contractors providing similar work; costs of prior projects; and an undocumented evaluation of costs proposed by the other agency, or their contractor or recipient. However, these efforts to evaluate costs were not documented in the project file.

Cost reasonableness was one of the issues identified in the prior audit report. The agency officials agreed that the decision memorandum should address the matter. As noted above, the decision memorandums generally covered whether the costs were reasonable.

Project Timing Was Inconsistent With Award

Project start dates were often before the award date without justification. According to an Agency directive (Resource Management Directive 2550C, Chapter 4: Interagency Agreements, paragraph 10 - Procedures for Funds-Out (Disbursement) Agreements, dated 8/5/92), work cannot begin nor costs be incurred under an IAG until it is signed by both parties. In addition, project period start dates should be on or after the IAG is countersigned by the accepting agency. Exceptions to this policy must be supported by a memorandum signed by the program decision official. According to an Agency grants management fact sheet, starting work before the IAG is awarded limits options of program decision officials, since a decision not to pay for the work would improperly augment EPA's budget or create in the other agency an Anti-deficiency Act violation. According to an Agency directive, Congress authorizes specific amounts of money for an agency to use for specific purposes during a specific period of time. Using these funds otherwise violates the appropriation act. Also, starting work before award may result in the

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contractor doing work that is not funded, and may mean the other agency cannot obtain timely payment for the work.

The project start date for 34 (or 62%) of the 55 IAGs was before the award date. There were two primary reasons why the project start date was before the award date. First, the program office underestimated how long it would take to process the IAG. In these cases, the project started after the decision memorandum was signed but before the IAG was awarded. One project officer, for example, believed it would take 15 days to award the IAG and set the start date accordingly. The IAGs in the sample were awarded an average of 50 days after the date of the decision memorandum; the range was from 1 to 208 days. Second, officials reached agreement with the other parties and proceeded with the work; subsequently the decision memorandum was prepared without an explanation regarding the timing of the work. In eight of these cases, work actually started before the award but was justified in only two cases.

Project Officers Are Monitoring Agreement Activity

Project officers are adequately monitoring the work under the IAGs, including keeping the other agency informed of progress under reimbursement IAGs. However, the monitoring efforts were not always documented in the project file. According to an Agency directive, the project officer must “Maintain a complete working file concerning relevant programmatic and administrative activities, including pertinent documents.” These activities include monitoring the receipt (or delivery, under a reimbursement IAG) of goods or services throughout the project period to ensure compliance with the terms of the agreement.

Three types of monitoring activities were not always documented in the project files. Electronic messages were filed in the project officer’s computer. Consequently, the information was not readily available unless the project officer was available. In addition, some project officers told us that discussions from project meetings were not recorded and made part of the file, nor were telephone conversations with parties to the IAG. Conversely, in other cases, the project officer kept notes of meetings and telephone conversations and copies of electronic mail in the project file. One good example was a project officer who had established a “Post-award Management Plan” showing how she intended to track progress of the work under the IAG. She then documented that she was following her plan.

Additionally, the work being performed under the IAGs is the work described in the decision memorandum. The decision memorandum must describe the objectives of the proposed project and explain how the IAG will accomplish them. At the time we met with the project officers and reviewed their files, work had begun under all but four of the IAGs. Based on the discussions with the project officers and a review of the progress reports, the

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work actually performed was consistent with the descriptions in the decision memorandums.

More Payment Information Is Needed For Disbursement IAGs

Under a disbursement IAG, EPA is the requesting or ordering agency. That is, EPA pays the other agency (or their contractor) for the work. Payments are made electronically or manually through the CFMC. When made electronically, funds are taken from EPA's account by the other agency, and EPA has three months to electronically reverse this action. The agency taking the funds leaves behind minimal information to explain the charges. We found that in some cases the project officers approved payments without detailed information about the charges. According to an Agency directive (Resource Management Directive 2550C, Chapter 4: Interagency Agreements, paragraph 5 - Roles and Responsibilities - g.2. (8/5/92), the project officer must receive and review detailed cost information submitted by the other agency. This information must be provided on a project-by-project basis and must break down the information into the budget categories on the IAG form. In addition, project officers did not always promptly inform CFMC whether the payment was acceptable. In February 2000, a grants management fact sheet for Agency leaders addressed these problems with payments under IAGs.

Cost Details Were Not Always Available

The prior audit report found that project officers generally did not obtain and review cost information before approving invoices for payment. To correct the situation, Agency officials agreed to include a standard clause in the IAG to require supporting cost details and to address the matter when training the project officers. In addition, the project officers would be instructed to notify CFMC to withhold or retract payments if details were not provided. Cost details may help the project officer: evaluate the progress of the work; justify the payments being made; or ensure that the other agency's fee is correct.

The IAGs in the sample included the above standard clause, and for 13 (or 46%) of the 28 IAGs under which payment had been made, the project officer obtained the necessary cost details. For various reasons, in other cases the project officer was unable to obtain cost details, or believed they were unnecessary.

In some instances when the project officer tried to obtain cost details, they were not successful. In two cases, the project officers asked CFMC to retract payments that had been made because cost details were not available. At the time of our review, the other agency had not yet provided the cost details and CFMC had not reversed the payments. In other cases in which the project officer wanted details but could not get them from the other agency, they approved the invoices anyway because they knew the work was being performed. One project officer became so frustrated because of the lack of cost information that he stopped returning the invoice approval forms to CFMC after July 1998.

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Some project officers believed obtaining cost details was not warranted. For example, the EPA share was such a small part of the overall project costs that the project officer was not concerned about the costs. Also, when EPA pays in advance, detailed cost information is not available at the time of payment; instead, the details should be provided afterwards on a quarterly basis, and the unexpended funds returned to EPA at completion of the work. In these cases, we agree cost details may not be warranted. Other project officers approved payments based on alternatives to detailed cost information, such as oral information on the work that was done, or the product(s) provided during the period covered by the payment. In these latter cases, we believe the project officer should try to obtain detailed cost information.

Project Officers Should Promptly Return Invoice Approval Forms

With one exception, the project officers were returning the invoice approval forms to CFMC. As mentioned above, one project officer stopped returning the invoice approval forms because of the lack of cost details. Although the project officers were generally returning the forms, they did not always do so in a timely manner. The forms are supposed to be sent to CFMC within 10 days of receipt. A prompt reply is particularly important when a payment is disapproved because CFMC must reverse electronic payments within three months. In addition, project officers did not always keep a copy of the invoices in their files. These invoice copies are useful to ensure duplicate payments are not made, especially if there is a change in project officers.

For 7 of the 28 disbursement IAGs under which payments had been made, using invoice approval forms in the project officer's files, we evaluated how quickly the project officer signed the form. That is, how many calendar days elapsed between the date on the approval form and the date of the project officer's signature. About half of the forms were signed within 10 calendar days. The elapsed time for the others was from 11 to 73 days. Thus, all of the forms were signed by the project officer within three months.

There were various reasons why the project officers did not promptly return the form: extensive travel; leave; trying to obtain cost details; higher priority work; and forgetting that the form had arrived. This issue has not been neglected. CFMC keeps track of whether invoice approval forms sent to a project officer are returned, and follows up on delinquent forms. However, it is still the project officer's responsibility to promptly evaluate invoices.

EPA Continues To Pay The Other Agency's Contractors

According to the prior report, EPA was paying contractors with whom it had no contractual relationship. Usually, when an IAG includes contract costs, the contractor bills the agency with which it has a contract, and the agency includes its contract costs in its bill to EPA. While the other agency has a legal right to payment from EPA, the report questioned

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whether their contractors (with whom EPA has no binding agreements) do. Even if this payment method is allowable, the Agency should ensure that direct payments to other Federal entities' contractors do not establish a relationship with those contractors which could make EPA directly liable for other unanticipated costs (such as disputed costs). Furthermore, the other agencies were charging EPA indirect costs to cover such services as processing and paying invoices, and there is no indication that they have reduced their established rates. Therefore, EPA could be paying twice for these services, i.e. paying the other agency through its established rate to process and pay invoices when EPA is processing and paying the invoices itself.

The disbursement IAG sample did not include any agreements with payments to another agency's contractors. However, a review of recent IAGs with one of the agencies identified in the prior report showed EPA is making direct payments to this agency's contractors. Thus, the practice identified in the prior report continues.

In a legal opinion dated February 7, 2000, the Office of General Counsel stated

We are aware of no express legal prohibition against the use of direct cite payment. However, the process increases the risk that the Agency would be held to be in privity of contract with a servicing agency's contractor and thus, potentially liable for contract-related costs and/or claims. To minimize that risk, if the Agency elects as a policy matter to continue to use the process, appropriate safeguards should be included in the IAG and the servicing agency's contract. In addition, Agency staff should strictly limit their interaction with the servicing agency's contractor to those activities necessary to make direct payment.

The opinion then identified some specific actions that the Agency should take to protect itself. Given this advice from the Office of General Counsel, at this time we do not intend to pursue the issue of privity any further. However, the project officer should negotiate the servicing agency's fee to ensure EPA will not be billed for indirect costs to cover services that EPA is providing, such as processing and paying invoices.

Accounting For Reimbursable Work Could Be Improved

Under a reimbursement IAG, EPA is the servicing agency doing work for another agency. To fund this work, EPA obtains reimbursable authority from the OMB, and makes this authority part of EPA's financial operating plan by reprogramming the reimbursable amount to an account specifically for a particular IAG. Thus, doing the work becomes part of EPA's budget. As work progresses, CFMC bills the other agency for the cost of the work. The amount billed under Economy Act reimbursement IAGs must recover the full cost of doing the work. The Agency should neither make nor lose money on reimbursable work. We found that the program offices sometimes did not promptly initiate the reprogramming

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needed to make the work part of the EPA budget, so the reimbursable funds were not available to pay for the work. In addition, project officers relied on CFMC to bill the other agency for services performed, although the guidance states the project officer should start the billing process. Finally, EPA is not being reimbursed for the full cost of doing work for others under the Economy Act.

Reprogramming Should Be Done More Timely

Reprogramming funds was delayed at least 6 months under 3 of the 12 reimbursement IAGs. Once the IAG is fully executed, the program office enters a reprogramming in the accounting system. After the Budget Division approves the reprogramming request, the reimbursement authority is reflected in the Agency operating plan. One reprogramming request was delayed due to a communication problem in the program office. In another case, reprogramming was delayed because the wrong accounting information was initially used. In the third case, the reprogramming was initially delayed because the project officer did not want to impose on the finance staff during their busy year-end activities.

Until the funds are reprogrammed, they cannot be used by EPA to do the work for the other agency. Therefore, the work should be delayed. Instead, for two of the above three cases, work proceeded using EPA funds. This causes two problems. First, EPA funds are not available for use on EPA activities. Second, since the payments were not made from the reimbursable account, CFMC will not have the information it needs to bill the other agency for the work.

In a related matter, we found another case where EPA funds were improperly used for reimbursable work. In this case, the funds had been reprogrammed, however, the project officer did not know how to obligate the reprogrammed funds for contract work. Consequently, EPA funds were used to pay the contractor.

CFMC Is Ensuring That The Other Agency Is Billed

According to an Agency directive, the project officer must notify CFMC of work performed under the agreement, fees to be charged, or cost to be reimbursed by the other agency. The project officer does this by sending CFMC the "Report of Reimbursable Services Rendered," (EPA Form 2550-8). Based on this report, CFMC should then bill the other agency. However, the project officers with whom we discussed the matter did not plan to send such a report to CFMC; instead, they expected CFMC to start the billing process without their input. Knowing the project officers probably would not send the report, CFMC regularly reviews disbursements related to reimbursement IAGs. When funds have been

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expended, CFMC bills the other agency. Consequently, even though the project officer may not send the report, CFMC will periodically bill the other agency.

EPA Is Not Assessing Fees For Reimbursable Work

The Economy Act, U.S. Comptroller General Decisions, and Agency policy all require full cost recovery when performing work or furnishing materials for another agency. Despite these requirements, the prior report found that EPA did not bill other agencies for EPA's indirect costs related to performing work or furnishing materials. This practice has not changed. By not recovering full costs, EPA is, in effect, transferring to other agencies resources that were given to EPA to accomplish its mission. Assuming rates comparable to those used by other agencies, for reimbursable work authorized in fiscal 1999, EPA may have been able to recover from \$221,000 to \$463,000.

According to the Economy Act, the requesting agency must pay the servicing agency "the actual cost of goods or services provided." This requirement was repeated in the implementing regulation (Title 40 CFR Chapter 1 Subpart 17.5), which further provided that when a contract was involved, the servicing agency was entitled to the actual costs of entering into and administering the contract or other agreement under which the order was filled. The composition of "actual cost" was clarified by Comptroller General decisions dated 1977 (B-136318) and 1984 (B-211953). They confirmed that actual cost, as used in the Economy Act, included overhead and other expenses. Further, the latter stated that "all proper elements of actual cost must be reimbursed in order to avoid augmenting the requisitioning agency's appropriation." The 1977 decision directed agencies that were not collecting significant indirect costs to "revise their practices with respect to any agreements entered into hereafter under such law."

EPA has not revised its practices and is not collecting indirect costs that may be significant. Other Federal agencies, when providing goods and services to EPA, charge indirect cost rates between 3 percent and 6.5 percent. During fiscal 1999, EPA accepted reimbursable work under the Economy Act totaling \$7,591,117. The related fee for this 1999 work, at the above rates, would range from \$221,100 to \$463,300.

In response to the prior audit report, the Agency agreed to develop an indirect cost rate for IAGs and include the rate in future Economy Act reimbursement IAGs. The development of the rate was to be based on an Agency-wide policy for identifying and allocating indirect costs. The Financial Management Division was to develop the policy in response to a recommendation from the 1994 financial statement audit. The policy was not developed. According to the 1999 financial statement audit, the OIG considers the 1994 recommendation still open because the Agency's corrective actions did not address the recommendation. Thus, the indirect cost rate for IAGs was never developed. Consequently, EPA continues to transfer its resources to other agencies.

FOLLOW-UP AUDIT ON HEADQUARTERS INTERAGENCY AGREEMENTS

Agency Directives Should Be Updated

Numerous guidance documents related to interagency agreements are available through EPA's Intranet. Although most of the guidance was recently issued, the directives were not. These directives should be updated and (perhaps) consolidated. In addition, training related to managing IAGs should be expanded to adequately cover the material in the directives.

The Grants Administration Division is responsible for developing and implementing Agency-wide administrative policies and procedures for IAGs, including training for the IAG managers. According to EPA's Directives Manual, a lengthy agency-wide directive is issued as a manual. Manuals usually consist of several chapters used to prescribe or establish policies and operating procedures in functional areas. GAD is the office responsible for the Assistance Administration Manual, including Chapter 51, "Managing Interagency Agreements." The most current version of the Assistance Administration Manual is dated 1984.

This manual is not the only agency-wide directive related to interagency agreements. Resource Management Directives 2550C chapter 4, and 2550D chapter 6, which were prepared by the Financial Management Division, also cover IAGs. These directives address, respectively, interagency agreements and Superfund interagency agreements, and are dated 1992 and 1988. Chapter 51 and these resource management directives contain similar information. They are supplemented by several other guidance documents. The oldest of these is the Interagency Agreement Policy and Procedures Compendium, dated September 1988. It includes Chapter 51 of the Assistance Administration Manual, plus three additional chapters that address statutory authorities, administrative linkages, and procedures for agreements between agencies. Much of the material in the additional chapters does not reflect recent legal opinions and current Agency practices. However, more recent guidance available on-line includes: legal opinions from the EPA Office of General Counsel; the Assistance Project Officer Training Manual, particularly module VIII and Appendix T; and three April 1999 documents issued by CFMC on accounting-related matters for IAGs.

GAD offers a three-day training course for assistance agreement and IAG project officers. One module of the course addresses IAG requirements. At the end of three years, project officers are encouraged to attend a one-day refresher course. The refresher also has a module devoted to IAGs. Because of the demand for the training, several program offices offer training for assistance agreement and IAG project officers in addition to that offered by GAD. These include the Office of Research and Development, the Office of Water, the Office of Air and Radiation, and the Office of Solid Waste and Emergency Response.

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Several project officers believed that the training did not sufficiently address managing IAGs. The module on IAGs takes about 1½ hours to complete. It covers a large amount of information: definition of an IAG; statutory authorities; guidance; availability of funds; the decision memorandum; CFMC's role; payments and billings; EPA requirements; project officer responsibilities; and responsibilities of the grant offices. To be more effective, we believe the training should also include examples and exercises. Thus, the IAG module would take longer. However, since not all assistance project officers also manage IAGs, the training may not need to be universal.

Recommendations

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

1. Update the decision memorandum guidance document and other current guidance based on chapter 51 of the Assistance Administration Manual and the rest of the September 1988 "Interagency Agreement Policy and Procedures Compendium," particularly regarding:
 - a. the statutory authority that should be used to transfer funds under an IAG;
 - b. the need to document the evaluation that the proposed costs are reasonable; and
 - c. ensuring that key decisions and project progress are documented in the file, including those in electronic format.
2. Eliminate the September 1988 "Interagency Agreement Policy and Procedures Compendium."
3. Expand the IAG training module, or create a separate course for project officers of IAGs with a prerequisite of either the assistance agreement project officers training or the work assignment manager training. This training should emphasize:
 - a. the content of the decision memorandum;
 - b. the statutory authority that should be used to transfer funds under an IAG;
 - c. identifying total project costs for projects citing cooperation authorities;
 - d. the need to document the evaluation that the proposed costs are reasonable;
 - e. ensuring that key decisions and project progress are documented in the file, including those in electronic format;
 - f. that the project start date must fall on or after the IAG award date unless justification is otherwise provided; and
 - g. accounting for reimbursable work.

FOLLOW-UP AUDIT ON HEADQUARTERS INTERAGENCY AGREEMENTS

4. Assist the Office of the Chief Financial Officer in the process of establishing an indirect cost rate to recover the full cost of work under Economy Act reimbursement IAGs and include the rate in future such IAGs.

AGENCY COMMENTS AND OIG EVALUATION

The Assistant Administrator for Administration and Resources Management generally agreed with the findings in the draft report. The Assistant Administrator suggested that we add information to clarify several points identified throughout the report. Although the Assistant Administrator did not fully agree with our recommendation for a standalone Interagency Agreement course, due to concerns voiced by EPA program office officials, the recommendation will be further evaluated by the Grants Administration Division's Customer Relation Council.

Based on clarification given during our exit conference, we believe that the Agency has adequately addressed recommendations 1 and 2. Although the Agency did not agree with recommendation 3, Agency officials did agree to further consider this matter and advise us of how the matter will be resolved. Instead of attaching the instructions to an existing electronic version of Form 1610-1 "Interagency Agreement / Amendment," per recommendation 4 in the draft report, the Grants Administration Division plans to develop an Integrated Grants Management System which will include this EPA form as well as the appropriate backup documents. We believe that this alternative is acceptable and request that the Agency provide status and milestone dates for this system. Based on the Assistant Administrator's response, we deleted this recommendation.

The Assistant Administrator did not believe that recommendation 5, in the draft report, involving the establishment of an indirect cost rate should have been raised in this report. It was raised in the OIG's 1994 EPA Financial Statements Audit and tracked during subsequent audits. The Assistant Administrator further believed that the recommendation should be deleted from this report. We have retained this recommendation, but slightly changed the wording from our draft report recommendation.

We considered the Agency's comments and revised the report appropriately. We have included the full text of the Assistant Administrator's comments as attachment 4.

Prior Report Recommendations and Agency Response

Interagency Agreements: Off-Loading at EPA Headquarters

Audit Report E1FMG4-13-0061-5400051

March 31, 1995

EPA NEEDS TO BETTER DETERMINE AND DOCUMENT THE COST REASONABLENESS OF ITS ECONOMY ACT IAGS

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

2-1. Require that the Decision Memorandum describe the expected benefit to EPA of purchasing through another agency and justify why the program office is not using the Agency's own procurement process. **EPA Agreed.**

2-2. Refuse to execute any Economy Act IAG which does not clearly indicate the reasons for purchasing through the IAG process rather than the procurement process. **EPA Agreed.**

2-3. Obtain documentation for the IAG file which shows that the work to be performed is within the scope and capacity of the existing contract. **EPA Agreed.**

2-4. Document for the IAG file, the comparative cost of each purchasing alternative considered. **EPA will require an Independent Government Cost Estimate or other basis.**

2-5. Apply the requirement for IGCEs to procurements through IAGs consistent with its current requirement for EPA contracts. **EPA will require an Independent Government Cost Estimate or other basis.**

EPA NEEDS TO RECOVER ITS FULL COSTS OF DOING WORK FOR OTHER AGENCIES

3-1. Establish indirect cost rates for all future reimbursement Economy Act IAGs. **EPA agreed to establish an Indirect Cost Rate by 9/30/97.**

3-2. Amend existing reimbursement Economy Act IAGs to include indirect costs. Cancel existing reimbursement Economy Act IAGs if the other agency is not willing to pay EPA's

indirect costs. **EPA will include an indirect cost rate provision in all funding actions after 9/30/97.**

3-3: Accept no new reimbursement Economy Act IAGs until indirect cost rates are established. **EPA Refused.**

ADMINISTRATION OF IAGS CAN BE STRENGTHENED

4-1. Develop a standard clause for inclusion in all disbursement IAGs stating that EPA will not pay invoices without supporting cost detail, including a breakout of direct and indirect costs. **EPA Agreed.**

4-2. Instruct project officers to notify CFMC to withhold/retract payments when the performing agencies does not adhere to conditions specified in the IAG. **Included in Project Officer training.**

4-3. Incorporate the above steps into project officer training. **EPA Agreed.**

4-4. Enforce project period limitations or require justification in the extension which includes a firm project completion date. **EPA Agreed.**

EPA HAS PAID CONTRACTORS WITH WHOM IT HAS NO CONTRACTUAL RELATIONSHIP

5-1. Seek an opinion from the Office of General Counsel as to whether EPA has legal authority to directly pay another agency's contractor under an IAG instead of paying the agency, and whether EPA incurs any potential liability as a result of direct payment to the contractor. If necessary, amend existing IAGs in accordance with legal requirements. **Opinion requested March 14, 1997; Office of General Counsel rendered an opinion dated February 7, 2000.**

5-2. Determine whether the Army Corps of Engineers and/or the U.S. Army National Guard Bureau's indirect cost rates take into account the assumption of some administrative activities by EPA as a result of the direct payment process, and if not, seek a reduction in the indirect cost rates charged under these IAGs. **EPA Disagreed.**

Additional Background Information About Interagency Agreements

The program office usually starts the interagency agreement (IAG) process by reaching agreement with the other agency about a specific project. If it is a reimbursement IAG for EPA, the other agency may give the program office a requesting document (i.e., their version of a disbursement IAG). After reaching agreement, the program office prepares a decision memorandum and drafts the "Interagency Agreement / Amendment" (EPA Form 1610-1), and sends both to the Grants Administration Division (GAD).

The decision memorandum must contain specific information and be signed by the authorizing program official. If applicable, the decision memorandum must:

- ◆ describe the proposed project;
- ◆ identify the statute that is the basis for transferring the funds;
- ◆ discuss alternatives considered and why the IAG mechanism was selected;
- ◆ explain why the other agency was selected, or why the other agency selected EPA;
- ◆ conclude, based on an independent cost estimate or other appropriate cost information developed by EPA, that the proposed costs are reasonable;
- ◆ address the requirements of the Economy Act;
- ◆ provide a statement regarding the ceiling on travel costs;
- ◆ provide statements regarding the appropriateness of an assistance agreement and the grant-making authority of both agencies;
- ◆ justify using the advance payment method; and
- ◆ justify incurring costs before the IAG is awarded.

Adequately prepared decision memorandum packages reduce the need for rework by the program office and follow-up by the GAD staff. GAD must review the decision memorandum package to ensure that it fully complies with all appropriate legislative, policy and administrative requirements.

As mentioned above, one matter that must be addressed by the decision memorandum is the basis for transferring funds between the agencies. Generally, the basis is either the Economy Act of 1932 or one of EPA's "cooperation" authorities. According to the Agency guidance dated September 1996, the Economy Act should be cited when the following criteria is met:

- ◆ one agency (or its contractor) will provide goods to or perform services for the other agency;
- ◆ the amount of the IAG equals the total estimated cost of the goods or services, including all direct and indirect costs;
- ◆ none of the funds will be used for a grant or cooperative agreement;

- ◆ the work will be performed within the period of fund availability, or (when a contractor will do the work) the contract or task order will be awarded within the period of availability; and
- ◆ (except when a contractor does the work) the approving official has determined that the requested services cannot be provided as conveniently or cheaply by a commercial enterprise.

Also when a contractor is used, either:

- ◆ the acquisition will be under an existing contract;
- ◆ the servicing agency has the capabilities and expertise to enter into a contract, which is not available within EPA; or
- ◆ the servicing agency is specifically authorized by law or regulation to purchase such supplies or services on behalf of other agencies.

Further, each Economy Act IAG must be supported by a determination and finding approved by the requesting agency's contracting official regarding some of the above requirements. Finally, both agencies must have the authority to perform the activities included under the IAG. EPA's authority is granted through use of one of its environmental statutes.

The Agency guidance is less precise regarding a cooperation authority, which is one of EPA's environmental statutes. Projects citing a cooperation authority may cover assistance agreements and must "generally" meet certain criteria. The key criteria is that the project be directly related to the needs and interests of both agencies.

Each IAG must identify the project period. The project period is the period during which the activities under the agreement are to be performed, defined with a starting date and an ending date. According to an Agency directive, the project period may not exceed five years unless justified by the originating office and approved by both the EPA decision and action officials. Further, the starting date must be on or after the IAG is countersigned by the accepting agency.

Statutory Citations Questioned

Summary: Of the 55 IAGs in the sample, we have concerns about the statutory citation for 5 interagency agreements (or 9%).

Criteria: Assistance Project Officer Manual, Appendix T, Attachment 4, and the 7-29-1997 legal opinion from the Procurement Practice Group, Finance and Operations Law Office, Office of General Counsel.

1

Interagency agreement number: DW47938308-01

Other agency: General Services Administration

Amount: \$403,000

Office: Office of Water

Description of activity: Evaluate EPA's whole effluent toxicity test methods, as part of the settlement of a court case. The work is being done by a GSA MOBIS contractor.

Decision memorandum citation: No statute was cited

IAG citation: Cooperation authority (Clean Water Act)

Conclusion: The Economy Act should have been cited because the GSA is not benefitting or contributing resources to the project. The IAG funding chart shows only IAG-related funds.

Agency comments: The Agency official agreed. This IAG involved the GSA MOBIS contract. A mistake on this citation was probably made and the Economy Act should have been cited. However, this IAG was awarded before the Agency knew of the problems with MOBIS; thus, instead of the Clean Water Act, they probably would have (incorrectly) cited ITMRA section 5112(e).

2

Interagency agreement number: DW75938334-01

Other agency: Department of Health and Human Services

Amount: \$1,500,000

Office: Office of Research and Develop

Description of activity: Install a joint-use pathological incinerator at the National Institute of Environmental Health.

Decision memorandum citation: Economy Act

IAG citation: Economy Act

Conclusion: Both agencies are providing resources to build the incinerator. The IAG funding chart shows both are contributing resources. Thus, a cooperation authority should be cited.

Agency comments: The Agency official disagreed. The Economy Act was correct since the Agency was ensuring access to services, i.e., the incinerator. Also, EPA was responsible for building specific parts of the incinerator. However, the guidelines were not clear. If the Agency was deciding on the citation today, the Economy Act might not be cited.

3

Interagency agreement number: DW75938398-01

Other agency: Department of Health and Human Services

Amount: \$10,000

Office: Office of Research and Development

Description of activity: With the National Institute for Environmental Health Sciences (NIEHS), sponsor a scientific conference on epigenetic toxicant-induced signal transduction and altered cell-cell communication to be held on October 18-20, 1999, in Ann Arbor, MI. A NIEHS grantee was organizing the conference.

Decision memorandum citation: CERCLA, section 311

IAG citation: CERCLA, sections 105(a)(4) and 115; Executive Order 12580

Conclusion: The wrong section of CERCLA was cited. Both agencies are providing resources for the project, as shown on the IAG funding chart, so a cooperation authority is appropriate. The project officer believed that CERCLA section 311 should be the citation because section 311(a) authorizes basic research (including epidemiologic and ecologic studies) in consultation with the secretary of Health and Human Services. Sections 105 and 115 concern, respectively, the national contingency plan and assignment of duties and responsibilities. They generally pertain to cleanup of contaminants at Superfund sites.

Agency comments: Agency official stated section 105 and 115 are usually cited for Superfund work. He would not cite any other section of CERCLA without discussing the matter with their Office of General Counsel representative.

4

Interagency agreement number: RW64938743-01 (reimbursement IAG)

Other agency: Tennessee Valley Authority

Amount: \$2,000

Office: Office of the Chief Financial Officer

Description of activity: Coordinating performance efforts related to clean water goals and objectives, with an EPA contractor providing support for this pilot project of the Natural Resources Performance Management Forum.

Decision memorandum citation: Economy Act
IAG citation: Economy Act

Conclusion: A cooperation authority (probably the Clean Water Act) should have been cited. The situation did not meet the criteria for citing the Economy Act. The decision memorandum explained that work was for the benefit of the Natural Resources Performance Management Forum, which includes EPA and 15 other Federal agencies. However, the IAG funding chart shows only the IAG-related funds. According to the project officer, three other agencies provided funds for the project through other IAGs, and EPA also contributed resources.

[Note: The other IAG in the sample related to this project (RW12938715) cited the Clean Water Act, section 104.]

Agency comments: The Agency official agreed. Since several agencies were funding the activity and a related reimbursement IAG cited a cooperation authority, a cooperation authority should have been cited.

5

Interagency agreement number: RW89938772-01 (reimbursement IAG)

Other agency: Department of Energy

Amount: \$50,000

Office: Office of Air and Radiation

Description of activity: International Symposium On Restoration Of Environments With Radioactive Residue. An EPA contractor provided support services for the symposium.

Decision memorandum citation: Both the Economy Act and Clean Air Act

IAG citation: Economy Act

Conclusion: A cooperation authority should have been cited because EPA, Department Of Energy, and the Nuclear Regulatory Commission (NRC) all benefitted from the symposium. However, the funding chart shows only the IAG-related resources. According to the project officer, EPA contributed in-house resources and its contractor. The NRC also contributed funds through another IAG (RW938340-01).

Agency comments: Agency official wanted to review office files. It appeared that a cooperative authority may have been appropriate and a mistake may have been made.

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Agency Response

AUG 22 2000

MEMORANDUM

Subject: Draft Audit Report: Follow-up Audit On
Headquarters Interagency Agreements

From: Romulo L. Diaz, Jr. /s/
Assistant Administrator

To: Michael E. Prater
Audit Manager

Thank you for the opportunity to review the draft Follow-up Audit on Headquarters Interagency Agreements. I have attached OARM's responses to the recommendations in the report with detailed comments on specific sections of the report.

In general, we agree with the report's findings and recommendations. However, we do not agree with the recommendation that the Interagency Agreement portion of the project officer's training course be expanded. OGD already has trained more than 4,600 project officers, and the number of project officers that we expect to train in the future will not be substantial. For this reason, we believe development of a new IAG standalone course would be a resource intensive effort not justified by the reduced training demand. Further, most of the issues raised under this recommendation are covered by the current IAG training module. However, since some EPA program offices believe changes should be made, we will bring the recommendation to the Grants Administration Division's Customer Relations Council. Based on advice of the Council and our experience with the training course, we will determine an appropriate course of action and advise your office.

If you have questions concerning our comments on the report or our responses to recommendations, please call Scott McMoran on 202-564-5376.

Attachment

ATTACHMENT

OARM RESPONSES TO RECOMMENDATIONS IN DRAFT AUDIT REPORT

1. Update chapter 51 of the Assistance Administration Manual, particularly regarding:
 - a. the statutory authority that should be used to transfer funds under an IAG;
 - b. the need to document the evaluation that the proposed costs are reasonable;
and
 - c. ensuring that key decisions and project progress are documented in the file,
including those in electronic format.

RESPONSE: For the most part, the issues raised in this recommendation are addressed in other IAG policy and guidance documents. The first two are covered in a decision memorandum guidance document signed by Gary Katz, Director, Grants Administration Division on September 30, 1996. That guidance is included in the Grants Administration Division's Project Officer's Training Manual and is posted on OGD's intranet site. In addition, since Chapter 51 of the Grants Administration Manual is the first chapter of the IAG compendium, and since we agree with Recommendation number 2, which recommends the elimination of the Compendium, it is not necessary to update Chapter 51. Chapter 51 will be eliminated with the rest of the Compendium, in accordance with our response to Recommendation 2. We do agree that it is appropriate to update the decision memorandum guidance document to make it a more comprehensive document. It would replace both the Compendium and Chapter 51, as well as the 1996 Guidance. We will draft the new IAG document according to the following schedule:

- Develop draft guidance and obtain Grant Administration Division approval for customer review by February 28, 2001.
- Obtain Grants Customer Relations comments by April 15, 2001.
- Respond to comments and submit Guidance to Agency Directives Review Process by June 30, 2001. As a part of the clearance process, we will eliminate the Compendium of Procedures and Chapter 51 of the Grants Administration Manual.
- Issue final Guidance as an Agency Directive by September 30, 2001.

The need to maintain adequate documentation of all actions under grants and Interagency Agreements is made clear under Grants Management Fact Sheet for Agency Leaders, Number 10: Assistance Agreement File Documentation, and in EPA Grants Management Record Keeping Requirements. Further, this responsibility is covered in the Project Officer Training Manual and training course.

2. Eliminate the September 1988, "Interagency Agreement Policy and Procedures Compendium," and transfer any relevant information (such as examples of decision memoranda) to the Assistance Project Officer Training Manual.

RESPONSE—We agree and we will take action to do so in accordance with the schedule above.

3. Expand the IAG training module, or create a separate course for project officers of interagency agreements with a prerequisite of either the assistance agreement project officers training or the work assignment manager training. This training should emphasize:
 - a. the content of the decision memorandum;
 - b. the statutory authority that should be used to transfer funds under an IAG;
 - c. identifying total project costs for projects citing cooperation authorities;
 - d. the need to document the evaluation that the proposed costs are reasonable;
 - e. ensuring that key decisions and project progress are documented in the file, including those in electronic format;
 - f. that the project start date must fall on or after the IAG award date unless justification is otherwise provided;
 - g. and accounting for reimbursable work.

RESPONSE—We do not agree that expanding the IAG Project Officer Training Module is necessary. We have trained more than 4,600 in the project officer training class and the number of project officers trained in the future will not be substantial. Development of a new course would be a resource intensive effort not justified by the reduced training demand. Further, most of the issues raised above are all covered by the current module. We do not agree that we should include identification of total project costs for projects citing cooperation authorities. This is not required and would not be possible in many cases. Instead, we require the decision memorandum to discuss the nature of the joint activities. There is generally no record keeping as to the actual level of resources expended by the other agency, so any costs included would be rough guesses and not helpful.

Since some of our agency partners, however, including the Office of Water, agree with the recommendation, we will bring this issue to the Grants Customer Relation Council at the December 2000 meeting. After a discussion in that forum, we will decide the best action to take based on the demonstrated and agreed to need. We will advise you of our conclusion as to what future action we will take by January 31, 2001.

4. Include the instructions with the electronic version of EPA Form 1610-1, "Interagency Agreement/ Amendment".

RESPONSE—Several program offices have developed electronic versions of the IAG form. GAD has not. We will however, provide the instructions to anyone who asks.

Developing new electronic forms such as that suggested here is not consistent with GAD's plans for the Integrated Grants Management System (IGMS). In the future, the program offices and other federal agencies will be able to use the electronic system to develop the EPA form, and appropriate backup documents. The instructions are included in Appendix T of the Project Officer's Training Manual. Each project officer has a copy of the Manual. Also, GAD staff will draft the form for program offices using the GAD IGMS system in cases where the offices ask for such assistance. We do not believe it is necessary to take the additional action of developing an electronic form with instructions.

5. Establish an indirect cost rate to recover the full cost of work under Economy Act reimbursement IAGs and include the rate in future such IAGs.

RESPONSE—We do not believe this issue should be raised under this Audit report. It is an ongoing issue raised in the 1994 EPA Financial Statements Audit and tracked in each report since. According to the FY 1999 Financial Statements Audit, "EPA discussed its Goals and Strategies to Support Federal Financial Management Priorities as part of its FY 2001 OMB A-11 Section 52.2 submission to OMB on November 5, 1999. The goals and strategies included six priorities, two of which discussed Improving Financial Accountability and Improving Financial Management Systems. Neither of these two discussion topics mentioned the development or the implementation of an agency-wide indirect cost policy. We [The IG] acknowledge that the discussion did mention the accomplishment of implementing the five basic accounting standards and the cost accounting standard issued by the Federal Accounting Standards Advisory Board (FASAB) as well as developing related policy announcements. The CFO should identify additional corrective action plans and milestones to implement our recommendation." We believe an Agency-Wide Indirect Cost Policy should identify what costs should be consistently included to recover its "full cost" when determining the appropriate level of user fees for programs that receive fees for services provided by EPA, costs for billing other government agencies for work performed by EPA Superfund Indirect Costs to be included in billings to responsible parties for site cleanups, etc. A cost accounting system, by itself, is not sufficient to take the place of an agency-wide indirect cost policy. Such a policy would help ensure that costs are consistently identified for inclusion in determining the "full cost" of conducting agency programs and activities. We believe this recommendation should be deleted from this report, since neither GAD nor OARM can take action to resolve it.

Technical Comments on Draft

Page 4 (First partial paragraph)–The Report includes the following sentence:

When a Headquarters program office intends to disburse funds through the Economy Act, EPA’s Office of Acquisition Management must review the proposed action and approve a related determination and finding.

The phrase “which will obtain services under a contract of the other agency” should be added to read as follows:

When a Headquarters program office intends to disburse funds through the Economy Act which will obtain services under a contract of the other agency, EPA’s Office of Acquisition Management must review the proposed action and approve a related determination and finding.

Economy Act IAGs which do not obtain services under another agencies contract do not require Office of Acquisition Management approval.

Page 4, Second paragraph–The Report includes the following sentence:

We also found cases where the GAD staff changed the citation without discussing it with program officials.

We make it clear to GAD staff that they should explain and discuss any change in statutory authority to project officers. If this did not occur, it was an oversight. We believe the sentence is unnecessary since there is no related recommendation.

Page 5, top partial paragraph–The Report includes the following sentence:

Thus, evidence of a joint effort was omitted from the IAG for the remaining 33 projects. To better support a cooperation authority citation, the IAG should identify resources provided by all parties.

Based on the limited number of cases where the audit report indicates GAD used an incorrect authority for the agreement, it appears the inclusion of such additional information was not necessary. We review each IAG to assure the authority is correct. If it cannot be determined that a project includes adequate information to determine whether it is appropriately a cooperation IAG, we request supporting information. Where it is clear, even though not specifically stated in a document, we bypass the bureaucratic step of asking for the paper.

Page 5, last full paragraph–The paragraph reads as follows:

Statutory authority is also of concern when the IAG project includes an assistance agreement, i.e., a grant or cooperative agreement. No funds may be transferred under an IAG unless both agencies have the authority to perform the activities included under the agreement. Thus, the agencies involved must each have authority covering the assistance activity. To ensure the matter has been considered, the decision memorandum must include a statement that the other agency has adequate grant-making authority. This requirement is being overlooked.

We do not agree that GAD overlooks the requirement. This is never a concern if the IAG is a funds-out agreement. If the other agency is awarding a grant or cooperative agreement it is clear that it has the authority to do so. For funds-in agreements, where this concern may arise, it is generally clear that the other agency has authority to award grants. In those few cases where this may not be true, we have asked the other agency for appropriate documentation. Where it is clear, even though not specifically stated in a document, we bypass the bureaucratic step of asking for the paper.

Page 6, last paragraph–The Report includes the following sentence:

According to an Agency directive, work cannot begin nor costs be incurred under an IAG until it is signed by both parties.

We are unsure as to what directive states this. Fact sheet Number 7 issued by Grants Administration Division states that costs should not be incurred before award. It also says, however, “In cases where emergencies, unplanned delays in fund availability, or other problems make it necessary to move forward before award of the IAG, obtain Decision Approval Official approval and develop an IAG funding package as soon as practicable.” We do not encourage initiation of work before award of the IAG, but in cases where it has happens, we require a justification for the Approval Official. For this reason, we believe the sentence should be deleted or revised.

Page 8, first full paragraph–The Report includes the following sentence:

According to an Agency directive, the project officer must receive and review detailed cost information submitted by the other agency.

The condition that must be included on each agreement states the following:

It is not our intent to require detailed cost information on each payment. Instead, the information must be adequate to allow the project officer to make an informed decision. In some cases, the project officer is intimately involved in the progress of the work and a very limited amount of information might be adequate. In others, detailed information might be required. In either case, it is within the project officer’s discretion to determine whether the submitted information is adequate.

Page 9, first full paragraph–The Report includes the following sentence:

In these latter cases, we believe the project officer should try to obtain detailed cost information.

See comment above.

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Report Distribution

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Deputy Assistant Inspector General for External Audits
Mid-Atlantic Audit Division

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Assistant Administrator, Office of the Chief Financial Officer
Comptroller
Director, Grants Administration Division
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