U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

EPA Improved Controls Over Billing Reimbursable Interagency Agreement Expenditures to Other Agencies

Report No. 16-P-0212 **June 27, 2016**

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Abbreviations

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
FEMA	Federal Emergency Management Agency
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General

Cover Image: Aerial view of an oil spill. The EPA, via interagency agreements, may receive reimbursements for oil removal costs resulting from their activities. (EPA photo)

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U.S. Environmental Protection Agency
Office of Inspector General

16-P-0212
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At a Glance

Why We Did This Review

We performed this audit to determine whether the U.S. Environmental Protection Agency (EPA) has controls in place to identify, record and bill all applicable reimbursable costs; and is accurately computing and billing all applicable reimbursable costs under reimbursable interagency agreements.

Reimbursable interagency agreements are written agreements between federal agencies under which goods or services are provided on a reimbursable basis. The EPA's Office of the Chief Financial Officer, Office of the Controller, oversees the billing of reimbursable expenditures under reimbursable interagency agreements.

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

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

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Listing of OIG reports.

EPA Improved Controls Over Billing Reimbursable Interagency Agreement Expenditures to Other Agencies

What We Found

In prior Office of Inspector General (OIG) audits, we found that the EPA did not timely bill other federal agencies for reimbursable costs. Based on our current audit, we found that the EPA is billing costs under reimbursable interagency agreements timely and accurately. While the EPA maintained a backlog of unreimbursed expenses, and had a large balance in federal unbilled receivables during fiscal year 2012, the EPA implemented actions to expedite billing older reimbursable costs and reduce federal unbilled receivables. Actions included:

Our prior and ongoing interest and concerns over recovering reimbursable expenses under reimbursable interagency agreements resulted in the EPA making a concerted effort to reduce the overall unbilled reimbursable costs, and it achieved $18 million in reductions.

- Obtaining additional funds from the U.S. Coast Guard, which enabled the EPA to hire additional staff to reduce the existing backlog of unbilled oil spill removal expenses.
- Reviewing quarterly unliquidated obligation reports from the Federal Emergency Management Agency (FEMA) and notifying FEMA of pending billable costs to prevent deobligation of mission-assignment funds.
- Requiring a seven-digit organization code in the accounting string to ensure that all reimbursable expenses are tied to a reimbursable interagency agreement and, therefore, billable.
- Creating a default in Compass financials (the EPA's accounting system) to reject any reimbursable expenses not tied to a reimbursable agreement.
- Performing an in-depth analysis of the federal unbilled receivable backlog to recover expenses previously unbillable.

Improvements in the federal billing process resulted in a sizeable decrease in federal unbilled receivables. The federal unbilled receivables decreased by approximately $18 million—from about $26 million in fiscal year 2012 to about $8 million in fiscal year 2015.

Since the EPA has already taken action to improve its reimbursable billing process and has reduced its unbilled receivables, no recommendations are being made. The agency agreed with our findings and had no comments to the discussion document. We will close the final report upon issuance.

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

THE INSPECTOR GENERAL

June 27, 2016

MEMORANDUM

SUBJECT: EPA Improved Controls Over Billing Reimbursable Interagency Agreement Expenditures to Other Agencies
Report No. 16-P-0212

FROM: Arthur A. Elkins Jr.

TO: David Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY13-0104. This report contains the OIG's findings. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

This report contains no recommendations and you are not required to respond to this report. However, if you submit a response, it will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

This report will be available at www.epa.gov/oig.

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Purpose

The objectives of this audit were to determine whether the U.S. Environmental Protection Agency (EPA) has controls in place to identify, record and bill all applicable costs incurred under reimbursable interagency agreements; and is accurately computing and billing all applicable costs.

Background

The EPA uses reimbursable interagency agreements to provide goods or services to other federal agencies in support of their mission. The EPA obtains reimbursable authority, which is authorized by congressional statute and is apportioned to the EPA from the U.S. Office of Management and Budget. This authority permits the EPA to obligate other funding sources (both federal and non-federal) in addition to the EPA's annual appropriation.

Once the EPA has incurred expenses under a reimbursable interagency agreement, it bills other agencies to recover the incurred costs. If the EPA fails to recover sufficient funds from the other agency, the EPA must use its own appropriated funds to cover the expenses, which could limit funds available for the EPA to perform its mission to protect human health and the environment. Examples of EPA reimbursable interagency agreements include agreements with the U.S. Coast Guard to conduct oil spill removals, and with the Federal Emergency Management Agency (FEMA) to respond to natural disasters.

Prior Office of Inspector General (OIG) audits found that the EPA did not timely bill other federal agencies for reimbursable costs, and the EPA had a backlog of unbilled reimbursable expenses. We determined that reimbursable costs were not billed for several years, or were billed after the other federal agency had deobligated the available funds. The EPA calculates an accrual each fiscal period to record the estimated amount of reimbursable expenses not yet billed, and to recognize earned revenue for financial reporting purposes. We determined that the EPA maintained a large balance in the federal unbilled receivables account.

Responsible Offices

The Office of the Controller[1] within the Office of the Chief Financial Officer (OCFO) operates finance centers, which have national financial responsibilities for certain functions and local financial responsibilities for assigned geographic areas. The Cincinnati Finance Center (CFC) has primary responsibility over the financial management of interagency agreements and accounts receivable. CFC is responsible for the oversight of financial requirements for reimbursable

[1] On March 6, 2016, the former Office of Financial Services in OCFO was consolidated into the OCFO's new Office of the Controller; the former Office of Financial Services had been responsible for the areas audited.

interagency agreements and is primarily responsible for conducting quarterly reviews and all billings related to reimbursable interagency agreements.

Scope and Methodology

We conducted this audit starting in February 2013. However, the project was suspended twice due to higher priority, congressionally mandated audits and internal resource constraints. The actual time periods we conducted the audit were February 2013 to July 2013, March 2014 to May 2014, and December 2015 to May 2016. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To answer the objectives, we:

- Reviewed the EPA policies pertaining to accounts receivable and laws and regulations that permit the EPA to recover costs.
- Interviewed CFC officials to document the billing process for reimbursable interagency agreements.
- Randomly sampled and tested the timeliness and accuracy of current billings under reimbursable interagency agreements from October 2011 through December 2012.
- Analyzed the oil spill backlog and the unbilled receivable data information in Compass financials (the agency's accounting system).

We did not review the internal controls over Compass financials from which we obtained financial data, but relied on the review conducted during the audit of the EPA's financial statements. Our review was limited to the EPA's process for identifying, computing, recording and billing reimbursable costs under federal reimbursable interagency agreements.

Prior Audit Coverage

We researched prior audits related to billing reimbursable expenses. The following EPA OIG reports disclosed findings pertinent to our review:

- ***Audit of EPA's Fiscal Years 2011 and 2010 Consolidated Financial Statements* (12-1-0073), issued November 16, 2011.** The report disclosed that the EPA did not timely bill other federal agencies for reimbursable costs incurred under reimbursable agreements before the other agency's funding became cancelled. This occurred because the EPA had difficulty reconciling costs incurred to costs billed under individual reimbursable agreements, which caused delays in replenishing funds spent on reimbursable agreements. The agency agreed to review unbilled federal reimbursable expenses, determine their collectability, and bill appropriate funds before the funding period was cancelled. The agency completed this recommendation for corresponding funds being cancelled in 2012.

- ***Audit of EPA's Fiscal Years 2010 and 2009 Consolidated Financial Statements* (11-1-0015), issued November 15, 2010.** The report disclosed that the EPA did not timely bill or collect receivables from federal agencies within the appropriation period available for reimbursement. The EPA billed several agencies after those agencies had deobligated the funds. One agency noted that the EPA took more than 2 years after the performance period ended to submit a bill. Another agency rejected a bill because the interagency agreement was closed and the billing charges were over 9 years old. We recommended the EPA establish procedures to timely bill federal agencies within their authorized appropriation period. The agency concurred with our remaining findings and recommendation and completed the recommendation related to current appropriated funds on October 4, 2010.

- ***EPA's Gulf Coast Oil Spill Response Shows Need for Improved Documentation and Funding Practices* (11-P-0527), issued August 25, 2011.** This report found that the EPA needed additional management controls to track and recover its Gulf Coast oil spill response costs. We recommended that the EPA implement controls to ensure that documentation supports authorized response activities, and that response bills and supporting cost documentation packages are clear and complete. We also recommended that the EPA seek new or additional emergency response funding authority for oil spills. The EPA completed the recommendations on June 11, 2012.

Agency Actions Prompted by OIG Work

Prior Office of Inspector General (OIG) audits of the EPA's financial statements and other audits, found that the EPA did not timely bill other federal agencies for reimbursable costs, and the EPA had a backlog of unbilled reimbursable expenses. Based on our current audit, we found the current billing process for reimbursable interagency agreements is now adequate, and the EPA is billing costs under reimbursable interagency agreements timely and accurately. A backlog of unreimbursed expenses existed in fiscal year 2012, and the EPA had maintained a $25.6 million balance in the federal unbilled receivables account. Our interest and concerns over recovering expenses under reimbursable interagency agreements resulted in the EPA making a concerted effort to reduce the overall unbilled receivables, and it achieved $18 million in reductions. The EPA implemented actions to expedite billing older reimbursable costs. These actions included:

- Receiving additional funds from the U.S. Coast Guard that enabled the EPA to hire additional staff to reduce the existing backlog of unbilled oil spill removal expenses.
- Reviewing quarterly unliquidated obligations reports from FEMA and notifying FEMA of pending billable costs to prevent deobligation of mission-assignment funds.
- Requiring a seven-digit organization code in the accounting string to ensure all reimbursable expenses are tied to a reimbursable interagency agreement and, therefore, billable.
- Creating a default in Compass to reject any reimbursable expenses not tied to a reimbursable agreement.
- Performing an in-depth analysis of the federal unbilled receivables backlog to recover expenses previously unbillable.

Because the EPA has already taken action to improve its reimbursable billing process and reduced its unbilled receivables, no recommendations are being made.

U.S. Coast Guard Agreements

The Oil Spill Liability Trust Fund is available to reimburse the EPA, via interagency agreements, for oil removal costs resulting from their activities. The EPA was not timely billing or being reimbursed for costs incurred under interagency agreements with the Coast Guard for oil spill removal activities. Factors contributing to the delays included stringent Coast Guard billing requirements and a change in requirements for site-specific cost packages.

EPA and Coast Guard personnel making up a Shoreline Cleanup Assessment Team overseeing cleanup operations following an oil spill into Lake Michigan. (EPA photo)

A memorandum of understanding[2] between the Coast Guard and EPA contained stringent requirements for documentation supporting bills. These requirements included obtaining individual site-supporting documents from the regions

[2] The memorandum of understanding describes the National Pollution Funds Center's responsibility to fully support the EPA by providing timely funding and support to carry out oil removals.

(i.e., contractor invoices, travel and payroll documents, etc.) before the EPA could submit bills to the Coast Guard for reimbursement. The Coast Guard also required additional efforts to prepare bills, such as marking "business information" from contractor invoices or travel and payroll documents. This additional effort increased the time CFC needed to prepare and submit bills and collect reimbursement from the Coast Guard, resulting in a backlog of unbilled receivables for oil removal costs.

The Coast Guard reimbursement requirements caused the EPA to change from a more timely bulk billing process (i.e., encompassing multiple site billings) to a less timely single-site billing process. The EPA's existing cost package billing system (Superfund Cost Recovery Package Imaging and On-Line System) generated bulk billing packages, and was not set up to generate individual site billing packages required by the Coast Guard. As a result, CFC experienced delays in generating the data for the individual site billing packages.

Under the revised reimbursable agreement with the Coast Guard, the EPA now charges an increased indirect cost rate to cover its costs for billing the Coast Guard for oil spill removal activities. This additional funding allowed the EPA to hire two additional full-time equivalents to help process the individual site cost packages for the Coast Guard bills and update the Superfund Cost Recovery Package Imaging and On-Line System to support the individual site cost billing packages. This resulted in a reduction of the backlog of unbilled receivables for oil spill removal activities by more than $4.2 million between fiscal years 2013 and 2016. The backlog was approximately $4.3 million during fiscal year 2013, and was reduced to about $65,000 by fiscal year 2016.

FEMA Agreements

FEMA deobligated funds from mission assignments before the EPA could bill for reimbursable expenses incurred on mission assignments. As a result, FEMA would no longer have the funding available to reimburse the EPA, and the unbilled receivables balance continued to increase. Based on negotiations with the EPA, FEMA implemented a new policy that requires FEMA to confirm with the EPA that funds are no longer needed before deobligating mission-assignment funds after the project period ended. FEMA now submits quarterly unliquidated obligation reports to the EPA showing outstanding unliquidated obligations in their records. The EPA compares the unliquidated obligation amount on the FEMA

EPA workers after a refinery explosion in Puerto Rico, a FEMA and EPA joint effort. (Yuisa Rios/FEMA photo) report against its open obligations, and informs FEMA which obligations should remain open and which can be deobligated. This approach allows the EPA to identify and timely bill known reimbursable expenses, which subsequently helps reduce the unbilled receivables.

Compass Enhancements

Prior to Compass, programs recorded reimbursable expenses but were unable to bill those expenses because they were not tied to a reimbursable agreement. To correct the issue, OCFO developed default controls in Compass that now require a seven-digit organization code tied to a specific reimbursable interagency agreement. The Compass default control will reject expenses charged to a reimbursable fund code without a seven-digit organization code. The use of the line of accounting with the seven-digit organization code in Compass assures that all expenditures for that reimbursable agreement will be captured correctly in the accounting system. That means more accurate billings for CFC and, by association, fewer unbilled receivables.

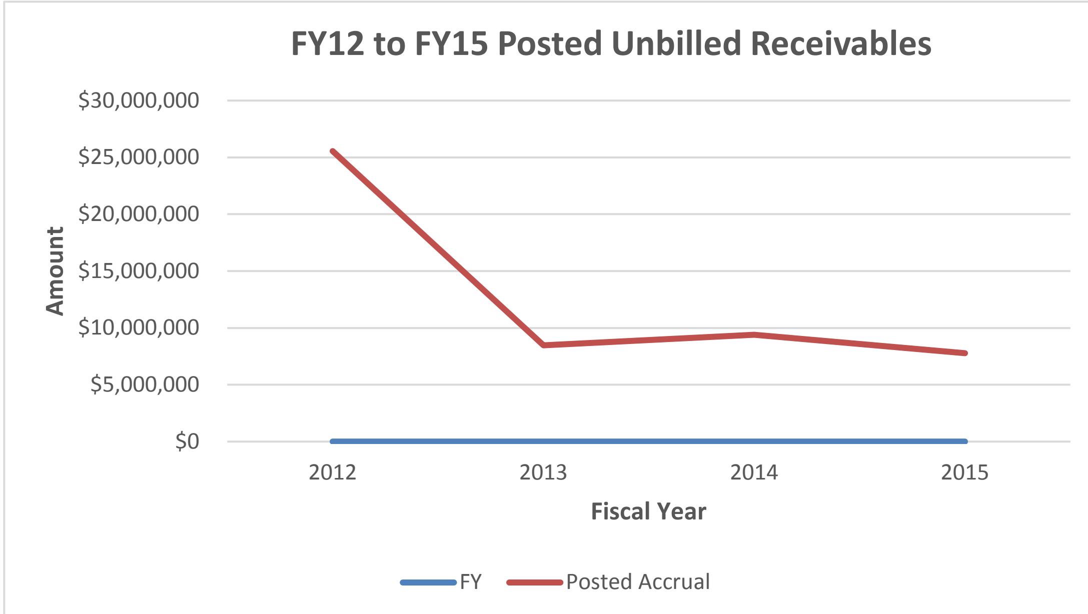
Review of Reimbursable Expenses

CFC spent considerable time and effort cleaning up the federal unbilled receivables report. The CFC staff researched old (prior year) unbilled reimbursable expenses remaining on the report to lower unbilled receivables and expedited reimbursable billings.

CFC identified and corrected errors in reimbursable expenses recorded in the accounting system, such as incorrect fund codes, program results and sites. These corrections enabled the EPA to recover those reimbursable expenses and reduce the unbilled receivables.

Improvements in the federal billing process resulted in a sizeable decrease in the federal unbilled receivables. The federal unbilled receivables decreased approximately $18 million—from about $26 million in fiscal year 2012 to about $8 million in fiscal year 2015, as shown in Table 1.

Table 1: Federal unbilled receivables balances from fiscal years 2012 to 2015



Source: OIG analysis of unbilled receivable balances.

Additional Noteworthy Achievements

- OCFO conducted a Lean Review in 2014, during which various offices in OCFO worked together to complete a comprehensive study of the reimbursable agreement process.

- OCFO now requires a reservation of funds in the budget that identifies reimbursable authority. As a result, costs cannot be charged to a reimbursable fund without a reservation of funds.

- OCFO developed a Reimbursable Agreements Status of Funds Report in Compass that provides the funding status of all current reimbursable agreements, and is used to identify differences in spending and account receivables.

- OCFO issued Resource Management Directive System 2550C-04-P2, which sets forth the EPA's financial requirements for the award and management of reimbursable interagency agreements. These requirements ensure that the EPA properly collects, documents and manages reimbursable funds, and recovers the full cost of performing work on behalf of a federal partner.

Agency Comments and OIG Evaluation

The agency agreed with our findings and had no comments to the discussion document. We will close the final report upon issuance.

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
		No recommendations					
		Note: during our review, the EPA reduced federal unbilled receivables by $18 million.				$18,000	$18,000

[1] O = Recommendation is open with agreed-to corrective actions pending.
C = Recommendation is closed with all agreed-to actions completed.
U = Recommendation is unresolved with resolution efforts in progress.

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