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OFFICE OF INSPECTOR GENERAL

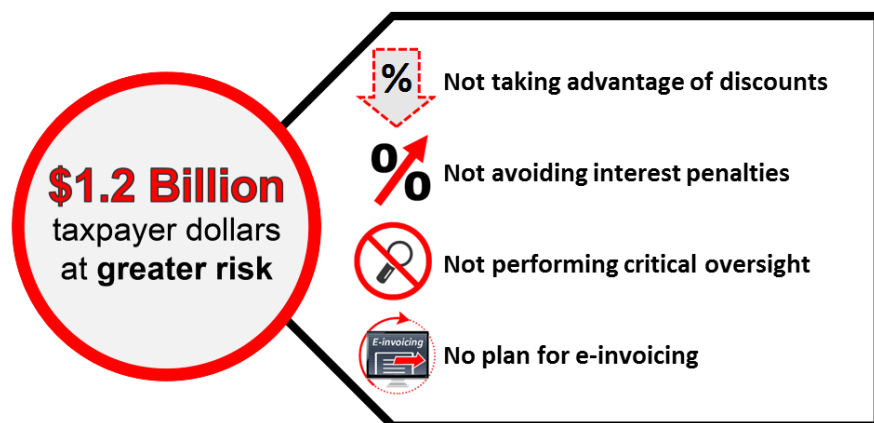


Operating efficiently and effectively

Without E-Invoicing and Stronger Payment Process Controls, EPA Is Placing \$1.2 Billion at Risk Annually

Report No. 18-P-0231

August 16, 2018



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Abbreviations

CFR	Code of Federal Regulations
CO	Contracting Officer
COR	Contracting Officer Representative
CPS	Contract Payment System
E-Invoicing	Electronic Invoicing
EPA	U.S. Environmental Protection Agency
EPAAG	Environmental Protection Agency Acquisition Guide
FAR	Federal Acquisition Regulation
FSSP	Federal Shared Service Provider
FY	Fiscal Year
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OTS	Office of Technology Solutions
PARS	Performance Appraisal and Recognition System
RTP-FC	Research Triangle Park–Finance Center

Cover Image: The EPA has placed \$1.2 billion of taxpayer funds at greater risk by not taking advantage of prompt payment discounts, not avoiding interest penalties, not performing critical oversight, and not having a plan to comply with the federal deadline to implement e-invoicing. (EPA OIG graphic)

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At a Glance

Why We Did This Project

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) implemented a contract invoice payment process that allows for the efficient processing of accurate and supportable invoice payments and that complies with federal laws, federal regulations and agency policies.

The Prompt Payment Act requires executive branch agencies to pay interest penalties when they do not pay their invoices by the due date. As a result, invoice reviews and approvals are critical functions that impact the management of public funds. The EPA's policy is to review invoices thoroughly to determine whether adequate information, proper rationale and documentation exist to support the payment of contract invoices in a timely manner. Responsibility for invoice review and approval is first vested with the contracting officer (CO), who may delegate this authority to the contracting officer representative (COR).

This report addresses the following:

- *Operating efficiently and effectively.*

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Listing of [OIG reports](#).

Without E-Invoicing and Stronger Payment Process Controls, EPA Is Placing \$1.2 Billion at Risk Annually

What We Found

The EPA can maximize the efficiency of its contract invoice payment process by focusing on four areas:

- Implementing an electronic invoicing (e-invoicing) system.
- Addressing administrative and contract modification processing errors.
- Taking prompt payment discounts offered on contract invoices.
- Performing critical CO and COR oversight duties.

The EPA places an annual average of \$1.2 billion in taxpayer funds at greater risk by not using an e-invoicing process, not taking advantage of prompt payment discounts, not avoiding interest penalties and not performing critical oversight duties.

The EPA does not have a plan to implement an e-invoicing system, even though the Office of Management and Budget directed agencies to transition to e-invoicing by the end of fiscal year 2018. Also, the EPA's administrative and contract modification processing errors result in interest penalties, and the EPA does not always take discounts when offered. In addition, agency COs and CORs could not provide or locate documentation demonstrating the performance of their oversight duties.

If the EPA does not address these areas, the agency will remain vulnerable to waste, fraud and abuse; will continue to put taxpayer dollars at risk due to discounts lost and interest penalties paid; and will miss opportunities to put these funds to better use to protect human health and the environment.

Recommendations and Planned Agency Corrective Actions

We recommend that the Chief Financial Officer develop a plan with milestone dates to implement an e-invoicing system. We also recommend that the Chief Financial Officer develop and implement measurable controls that address processing delays, provide staff with guidance on taking prompt payment discounts, and notify approving officials of expiring discount periods.

In addition, we recommend that the Assistant Administrator for Administration and Resources Management, in coordination with the Office of the Chief Financial Officer, develop and implement measurable controls for each office's role in processing contract invoices and contract modifications to address administrative and processing errors. Also, we recommend that the Assistant Administrator for Administration and Resources Management verify that COs are performing oversight responsibilities per the agreed-upon corrective actions from prior Office of Inspector General reports and implement agencywide measurable controls to address nonperformance of CO oversight responsibilities.

The agency did not provide a response to our draft report within 30 days, as required by EPA Manual 2750. We will meet with the agency to obtain resolution for our recommendations.



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

THE INSPECTOR GENERAL

August 16, 2018

MEMORANDUM

SUBJECT: Without E-Invoicing and Stronger Payment Process Controls,
EPA Is Placing \$1.2 Billion at Risk Annually
Report No. 18-P-0231

FROM: Arthur A Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Donna J. Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

Holly Greaves, 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-FY17-0256. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The EPA offices responsible for responding to issues in this report are the Office of Administration and Resources Management and the Office of the Chief Financial Officer.

Action Required

We did not receive the agency's response to our draft report submitted on June 14, 2018. This report contains unresolved recommendations. In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the Principal Deputy Assistant Administrator for Administration and Resources Management, the Chief Financial Officer, and the OIG's Assistant Inspector General for Audit and Evaluation. If resolution is still not reached, the Principal Deputy Assistant Administrator for Administration and Resources Management is required to complete and submit a dispute resolution request to the Chief Financial Officer to continue resolution.

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

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background.....	1
	Responsible Offices	2
	Scope and Methodology	2
	Prior Reports.....	3
2	EPA Needs a Plan to Comply with OMB’s Electronic Invoicing Requirements.....	5
	OMB Directs Agencies to Transition to E-invoicing	5
	EPA’s Manual Invoice Process Requires Personnel Resources, Incurs Interest Penalties	5
	EPA Has Not Transitioned to E-Invoicing.....	6
	EPA Risks Noncompliance, Errors with Manual Invoice Process	7
	Recommendation.....	7
	Agency Comments and OIG Evaluation.....	7
3	EPA’s Contract Invoice Payment Process Needs Improvements	8
	Federal Regulations and EPA Policy Require Prompt Invoice Payment and Review	8
	EPA Processed Invoices Late and Incurred Interest Penalties.....	9
	Late Payments Were Due to Invoice Processing Errors.....	10
	EPA Is at Risk for Interest Penalties and Missed Opportunities to Save Taxpayer Dollars.....	11
	Recommendation.....	12
	Agency Comments and OIG Evaluation.....	12
4	EPA Needs to Improve Its Processing of Discounts.....	13
	Prompt Payment Act and EPA Policy Address Discounts	13
	EPA Did Not Take Discounts Offered on Contract Invoices	13
	EPA Needs More Controls to Maximize Prompt Payment Discounts.....	14
	EPA May Continue to Miss Discount Deadlines and Opportunities to Save Taxpayer Dollars.....	15
	Recommendations.....	15
	Agency Comments and OIG Evaluation.....	15

5	Systemic Improvements Are Needed to CO and COR Oversight Responsibilities	16
	Federal Regulations and EPA Policies Outline CO and COR Responsibilities	16
	EPA Could Not Locate or Provide Invoice Process Documentation	17
	COs and CORs Continue to Not Comply with Federal Regulations, EPA Policies	18
	Lack of Accountability Increases Risk for Fraud, Waste and Abuse	19
	Recommendation.....	19
	Agency Comments and OIG Evaluation.....	19
	Status of Recommendations and Potential Monetary Benefits	20

Appendices

A	Contract Invoice Payment Samples Selected for Audit	21
B	Distribution	22

Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) conducted an audit of the U.S. Environmental Protection Agency's (EPA's) contract invoice payment process. The objective of our audit was to determine whether the EPA has implemented a contract invoice payment process that allows for the efficient processing of accurate and supportable invoice payments and that complies with federal laws, federal regulations and agency policies.

Background

From October 1, 2015, to September 30, 2017, the EPA paid out more than \$2.4 billion in contract invoice payments for 55,549 contract invoices (an average of \$1.2 billion annually). It is the EPA's policy to review contract invoices thoroughly to determine whether adequate information, proper rationale and documentation exist to support payment in a timely manner. Invoice reviews are therefore a critical function impacting the management of public funds.

The Prompt Payment Act, as amended, requires executive branch agencies—including the EPA—to pay interest penalties when they do not pay their invoices by the due date. The Prompt Payment Act also allows federal agencies to take discounts for prompt payments if such a discount is contractually authorized or offered on an invoice. The EPA Acquisition Guide (EPAAG) confirms the agency's adherence to the Prompt Payment Act and specifies that the agency "diligently seeks discounts for prompt payment."

EPA employees who review invoices are required to assess contract invoices thoroughly, process invoices in a timely manner, and maintain records of their reviews and the resulting actions taken. The responsibility for invoice review and approval is first vested with the contracting officer (CO), but the CO may delegate authority for reviews and approvals of contract invoices to the contracting officer representative (COR).

The EPA's current invoice payment process starts when a contractor submits an invoice to the EPA's Research Triangle Park–Finance Center (RTP-FC). RTP-FC staff enter the invoice into the EPA's Contract Payment System (CPS), review the invoice to verify that it meets Prompt Payment Act standards, and determine whether a discount is available for prompt payment. If the invoice is determined to be proper, RTP-FC staff notify the approving official that an invoice is ready for review and approval. Once the invoice is approved for payment, the information flows back to the RTP-FC for the certification process. After the

invoice is certified, it is ready for payment. Figure 1 depicts the EPA’s invoice review-and-approval process.

Figure 1: Contract invoice review-and-approval process calendar

1–3 workdays	15 calendar days	22–28 calendar days	29–30 calendar days
<ul style="list-style-type: none"> • The RTP-FC date- or time-stamps the invoice; records the invoice in the CPS; and performs an initial audit of the invoice for validity, funding and prompt payment discounts. 	<ul style="list-style-type: none"> • COs and/or CORs review and approve the invoice. 	<ul style="list-style-type: none"> • The RTP-FC performs the certification process, which includes reviewing appropriations and verifying that payments are justified. 	<ul style="list-style-type: none"> • The EPA’s Las Vegas Finance Center certifies and sends the payment file to Treasury. • Treasury pays the contractor.

Source: OIG adaptation of image in the EPA’s *Invoice Review & Approval Desk Guide*.

Responsible Offices

The Office of Administration and Resources Management (OARM) provides national leadership, policy and management of many essential support functions for the EPA, including acquisition activities (contracts). The Office of Acquisition Management, within OARM, is responsible for the EPA’s acquisition function, including the policies, procedures, operations and support of the agency’s procurement and contracts management programs.

The Office of the Chief Financial Officer, which includes the RTP-FC, provides financial services for the EPA and makes payments to EPA grant recipients, contractors and other vendors. The Chief Financial Officer’s Office of Technology Solutions (OTS) is responsible for information technology planning, as well as the development and deployment of financial and resources management systems for the EPA.

Scope and Methodology

We conducted this audit from July 2017 to June 2018 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To answer our objective, we reviewed the following laws, federal regulations, agency procedures and agency policies related to the contract invoice payment process:

- Federal Acquisition Regulation (FAR) Subpart 1.6, “Career Development, Contracting Authority, and Responsibilities.”
- FAR Subpart 32.9, “Prompt Payment.”
- 5 CFR Part 1315, “Prompt Payment.”
- Office of Management and Budget (OMB), *Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing*, Memorandum M-15-19, July 17, 2015.
- EPAAG, Subsection 32.9.1, “Invoice Review,” 2017.
- EPA, *Invoice Review & Approval Desk Guide*, March 13, 2015.
- Treasury Financial Manual, Volume I, Part 4A, Chapter 2000, “Overall Disbursing Rules for All Federal Agencies.”

We obtained a universe of 55,549 contract invoice payments from October 1, 2015, to September 30, 2017. The team judgmentally selected the program office and the region with the highest total dollar amount of invoices, as well as the program office with the largest number of invoices: the Office of Environmental Information, Region 5, and the Office of Land and Emergency Management.

From these three offices, we judgmentally selected a sample of 18 contract invoice payments based on the nine highest invoice amounts and nine highest negative disbursements, and we audited supporting documentation and data for these 18 payments from the EPA’s staff and financial system. Appendix A provides a summary of the 18 selected samples.

We interviewed OARM and Office of the Chief Financial Officer staff to learn their processes related to, procedures for and relationships with invoice contract payments. Also, we interviewed COs and CORs from the Office of Environmental Information, Region 5, and the Office of Land and Emergency Management who were responsible for the 18 selected contract invoice payments to determine whether those invoices were reviewed, supported, accurate and approved for payment in a timely manner according to federal regulations and agency policy.

Prior Reports

The EPA OIG issued the following prior reports that relate to this audit:

1. OIG Report No. [16-P-0078](#), *EPA’s Background Investigation Support Contracts and OPM Billings Need Better Oversight and Internal Controls*, issued December 2015, found that the EPA did not monitor support

contracts for compliance with the terms and conditions of the contracts. Specifically, the OIG found that the COR certification was expired, the COs did not perform annual contract invoice reviews, the COR did not maintain proper contract documentation, and the COR was not aware of documentation requirements. This report made 14 recommendations; the agency reported that the corrective actions for all recommendations have been completed as of October 2016.

2. OIG Report No. [16-P-0135](#), *EPA Should Timely Deobligate Unneeded Contract, Purchase and Miscellaneous Funds*, issued April 2016, found that EPA personnel did not adequately review or monitor outstanding obligations to verify that the amounts remaining were valid. This report made three recommendations; the agency reported that the corrective actions for all recommendations have been completed as of October 2016.
3. OIG Report No. [15-P-0215](#), *Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7*, issued July 2015, found that Region 7 did not sufficiently review contract invoices, contractor billings included double-billed items and other unallowable items, Region 7's annual invoice reviews were lacking, adjustment vouchers were not submitted in a timely manner, and Region 7's CO did not appoint CORs for the contract in a timely manner. This report made 26 recommendations; the agency reported that all recommendations were completed in June 2017.
4. OIG Report No. [17-P-0380](#), *EPA's Alternative Dispute Resolution and Public Involvement Contract Needs Better Management*, issued September 2017, found that the management of the subject contract needed improvement to comply with contractual and acquisition requirements. Specifically, we found that the CO for the subject contract did not perform contract invoice reviews in a timely manner and did not issue the COR appointment memorandum in a timely manner. In addition, the OIG found that Task Order CORs did not provide written technical direction as required. This report made three recommendations; the agency reported that the corrective actions for all recommendations have been completed as of September 2017. Additionally, as a result of the audit, the CO began performing and documenting quarterly invoice reviews.

Chapter 2

EPA Needs a Plan to Comply with OMB's Electronic Invoicing Requirements

As of April 2018, the EPA did not have an established plan or finalized approach for implementing an electronic invoicing (e-invoicing) system. In July 2015, the OMB directed federal agencies to transition to e-invoicing for appropriate federal procurements by the end of fiscal year (FY) 2018. The OTS said that it has reviewed three options for e-invoicing but is not sure what kind of e-invoicing system to implement. Not having an e-invoicing system implemented by the end of FY 2018 means the agency will not meet federal requirements and will continue to rely on its manual invoice process, placing contract invoice payments at risk of errors, which cause late payments and interest penalties.

OMB Directs Agencies to Transition to E-Invoicing

OMB Memorandum M-15-19, *Improving Government Efficiency and Saving Taxpayer Dollars Through Electronic Invoicing*, issued July 17, 2015, directs agencies to transition to e-invoicing for appropriate federal procurements by the end of FY 2018 (Figure 2) using one of the following means:

1. "Migration to a designated Federal Shared Service Provider (FSSP)¹ and adoption of the FSSP e-invoicing solution.
2. "Use of an OMB-approved e-invoicing solution that aligns with agency mission and support requirements.
3. "Cessation of any investments in new e-invoicing solutions."

Figure 2: E-invoicing transition deadline



Source: OIG image.

EPA's Manual Invoice Process Requires Personnel Resources, Incurs Interest Penalties

The EPA's invoice process starts when an invoice is received at the RTP-FC by email or postal mail. If the invoice is received by email, RTP-FC staff manually save the invoice into the CPS. If the invoice is received by postal mail, RTP-FC staff will scan the invoice, create an electronic file, and manually bar code the electronic file to prepare it for entry into the CPS. The RTP-FC is responsible for

¹ The term "shared services" refers to an operational unit (including people, processes and technologies) that is a centralized point of service and is focused on defined business functions within an organization.

confirming and annotating official receipt of the invoice in addition to verifying and entering the terms of any discounts into the CPS.

The EPA's *Invoice Review & Approval Desk Guide*, Section VIII.1.c, states that if RTP-FC staff determine that the invoice does not comply with federal and EPA requirements, they must return the invoice to the vendor within 7 days after receipt, along with the reasons why the invoice was determined to be improper. Section VIII.2, states that if the invoice is determined to be proper, RTP-FC staff will notify the approving official that it is ready for review and approval.

In addition to the personnel resources required to manually review and approve invoices, the EPA incurred more than \$95,000 in interest penalties due to late payments in FYs 2016 and 2017. The EPA also was unable to take advantage of over \$197,000 in prompt payment discounts during this same period. Chapters 3 and 4 of this report detail these findings. RTP-FC staff said that automating processes would help reduce costs, error rates and the personnel resources required to manually review and approve invoices.

EPA Has Not Transitioned to E-Invoicing

As of March 2018, the EPA had not transitioned to or established a plan to implement e-invoicing. Since the OMB issued Memorandum M-15-19 in July 2015, the OTS said that it has reviewed options with outside sources to implement e-invoicing, but it has not finalized an approach.

The EPA said that it has reviewed the following options from outside sources:

- *U.S. General Services Administration*. Provides a wide range of quality technical services that can improve a federal agency's performance and help meet mission goals.
- *CGI (contractor)*. Offers a span of shared services in the federal government, including information technology infrastructure, enterprise information technology, programmatic and back-office services, and mission services.
- *U.S. Department of the Treasury's Invoice Processing Platform*. Provides a web-based, integrated and secure system to simplify the management of vendor invoices. It is offered at no charge to federal agencies and their vendors.

Initially, in January 2018, the OTS told us that it could not comply with the OMB requirements due to a lack of funding for a contract but that it had selected a project manager for the e-invoicing project. However, the OTS was not sure what kind of e-invoicing system to implement. In March 2018, the OTS indicated that it had a sole source contract to implement e-invoicing but stated that "due to

limitations on the sole source contract that [would have been] awarded, we have decided to take another route.” The OTS informed us that it has a roadmap of anticipated implementation but that the roadmap needs to be updated after the agency establishes and finalizes its approach. The OTS did not say whether the EPA would meet the federal requirement to implement e-invoicing by the end of FY 2018.

EPA Risks Noncompliance, Errors with Manual Invoice Process

The EPA is at risk of not complying with the OMB requirement to implement an e-invoicing system by the end of FY 2018. Additionally, by using manual processes to review and approve contract invoices, which cause late payments and interest penalties, the EPA continues to put taxpayer dollars at risk for errors. An e-invoicing system would benefit the EPA by helping to reduce the resources and costs associated with its manual contract invoice payment process.

Recommendation

We recommend that the Chief Financial Officer:

1. Develop a plan with milestone dates to implement an electronic invoicing system to meet the Office of Management and Budget fiscal year 2018 requirement.

Agency Comments and OIG Evaluation

We issued our draft report on June 14, 2018, but did not receive a response from the agency within 30 days of the issuance date, as requested by the OIG and required by EPA Manual 2750. We consider this recommendation unresolved and will work with the agency to reach a resolution.

Chapter 3

EPA's Contract Invoice Payment Process Needs Improvements

The EPA did not always pay its contract invoices on time and therefore did not always avoid interest penalties. The EPA paid interest penalties on nine of the 18 invoices we reviewed, and eight of those interest penalties were due to administrative and contract modification processing errors. OMB regulations require federal agencies to pay their bills on a timely basis and to pay interest penalties when payments are late. In addition, the EPAAG states that the government's policy is to review and process invoice submittals in a timely manner. The EPA needs to implement additional controls to accurately process its contract invoices in a timely manner. The EPA could have saved taxpayers over \$95,000 in interest penalties in FYs 2016 and 2017 if contract invoice payments were made in accordance with federal and EPA regulations.

Federal Regulations and EPA Policy Require Prompt Invoice Payment and Review

FAR Part 32.9, "Prompt Payment," states that, with exceptions, the general payment due date is the 30th day after the later of two events: (1) the designated billing office receives a proper invoice from the contractor or (2) acceptance of supplies delivered or services performed. For construction contracts, the payment due date is 14 days after the designated billing office receives a proper payment request.

The OMB's "Prompt Payment" regulations at 5 CFR Part 1315 require federal agencies to pay their bills on a timely basis and to pay interest penalties when payments are late. Per these regulations, agencies may take prompt payment discounts when payments are made. The regulations also mandate that agencies review each invoice as soon as practicable after receipt to determine whether it is proper.

The Treasury Financial Manual, Volume I, Part 4A, Chapter 2000, "Overall Disbursing Rules for All Federal Agencies," Section 2070, states that "[e]ffective control over disbursements requires the preaudit and approval of vouchers before they are certified for payment." One of the principal objectives of the preaudit of a voucher is to determine whether "[f]unds are available at the time the obligation is incurred. If an obligation is incurred when funds are not available, then the payment may not be certified and a payment voucher may not be disbursed."

The EPAAG, Subsection 32.9.1, "Invoice Review," states that "[i]t is the policy of the government to review invoices thoroughly for cost reasonableness and to process invoice submittals in a timely manner." The EPAAG emphasizes that

federal agencies adhering “to this policy will result in payment of costs which are allowable, allocable, and reasonable, and avoid interest penalties due to late payment of such costs.”

EPA Processed Invoices Late and Incurred Interest Penalties

The EPA processed contract invoices after the 30-day time period specified in the FAR and incurred interest penalties as a result. Of the 18 total invoices we sampled, the EPA paid interest penalties on nine of them. Of these nine invoices, eight (89 percent) were paid late as a result of administrative and processing errors, while one was paid late as a result of a database system error. The eight invoices that incurred interest penalties due to administrative and processing errors were paid from 30 to 138 days after the allowable 30-day period (i.e., from 60 to 168 days total, as shown in Table 1). As a result of these errors, the EPA paid \$10,386—below 1 percent of the approximately \$3.5 million disbursed on the eight invoices—in interest penalties.

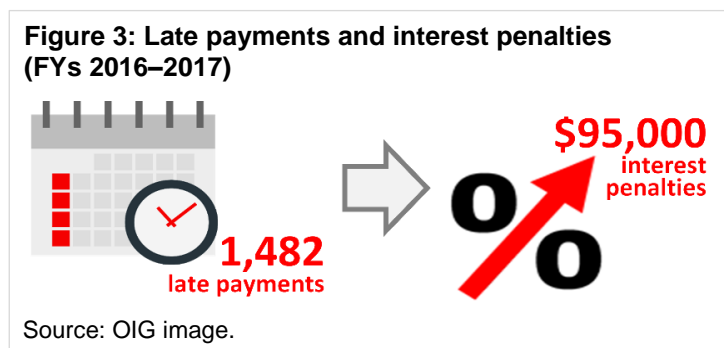
Table 1: Interest payment penalties due to administrative and processing errors

Sample	Days to process payment	Invoiced amount	Disbursed amount	Interest penalty paid
1 Invoice B	168	\$285,774	\$288,524	\$2,749
2 Invoice O	117	177,132	177,936	804
3 Invoice P *	109	68,973	69,257	284
4 Invoice J *	66	208,181	208,702	521
5 Invoice N	63	1,885,515	1,889,837	4,322
6 Invoice F	62	209,008	209,357	348
7 Invoice K	60	224,050	224,517	467
8 Invoice L	60	427,822	428,713	891
Totals		\$3,486,455	\$3,496,843	\$10,386

Source: EPA contract invoice data.

* Reissued due to improper payment. See Table 2.

From October 1, 2015, to September 30, 2017, the EPA paid out more than \$2.4 billion in contract invoice payments for 55,549 contract invoices. These



invoices included 1,482 late payments that caused the EPA to incur over \$95,000 in interest penalties (Figure 3). While the percentage of interest penalties paid in comparison to the overall dollar amount of invoices paid is well under 1 percent, OMB Memorandum M-15-19 seeks to improve government efficiency by requiring agencies to adopt

e-invoicing solutions for government contracts. The memorandum also states that invoices that are processed using a mix of electronic and manual processes can result in taxpayer dollars being used for late payments fees rather than to support critical agency missions.

We also noted that two contract invoice payments in our sample (P and J) were reissued due to improper payments made by the agency. However, for Invoice P, the EPA did not report the original contract invoice payment as improper in FY 2016. Reporting improper payments is required by the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination Recovery Act of 2010 and the Improper Payments Elimination and Recovery Audit Improvement Act of 2012.

Late Payments Were Due to Invoice Processing Errors

Of the nine invoices in our sample that incurred interest penalties, we found that eight of the late payments were primarily due to administrative and contract modification² processing errors. Table 2 summarizes the reasons EPA staff provided for these late payments. The EPA needs to address these processing errors to improve its contract invoice payment process.

Table 2: Administrative and processing errors that resulted in interest penalties

Sample	Type of error	Reason provided for lateness
Invoice B	Program office project officer error	Project officer said payments were made out of incorrect fiscal years.
Invoice F	RTP-FC administrative error	There were issues with labeling and paying the invoice.
Invoice J	RTP-FC administrative error	Invoice was reissued because it was paid to the incorrect vendor code. The initial payment was reported as improper in FY 2016.
Invoice K	Regional office delay of funds error	COR said that payment was delayed because the region needed to obligate funds.
Invoice L	OARM Office of Acquisition Management contract modification error	Payment of invoice was delayed until a contract funding modification was processed.
Invoice N	OARM Office of Acquisition Management contract modification error	Option periods were entered wrong. Payment of invoice was delayed until funds were made available in the contract for the correct line of accounting.
Invoice O	RTP-FC administrative import error	Manual invoice entry was missed.
Invoice P	RTP-FC administrative error	Invoice was reissued because it was initially sent to the wrong vendor. The initial payment was not reported as improper in FY 2016.

Source: EPA contract invoice data.

² “Contract modification” means any written change in the terms of a contract.

In addition, RTP-FC management told us that it is aware of general entry accounting line errors that cause invoices to go unpaid until corrected. The RTP-FC indicated that late payments were caused by the following errors:

- Insufficient funding because funding documents were not submitted in a timely manner.
- Project officer/COR late approvals.
- Payment office errors.

The EPA's Office of Acquisition Management staff also informed us of common reasons for late invoice payments, including the following:

- Administrative issues due to staff availability to approve.
- Vendor listing different rates in invoices than in the contract.
- Vendor billing outside of the payment period.
- Vendor invoicing for products not delivered.

The EPA has implemented some oversight of the invoice review-and-approval process. For example, the RTP-FC provided us with a list of the "top five" highest interest payments for January 2018, along with reasons why interest penalties were incurred and the actions taken to address these errors. Also, the RTP-FC occasionally conducts an "Invoice Payment Section Shut Down" payment blitz, which allows the office to focus on a particular part of the payment process to maximize timely payments. However, these actions occur on an occasional basis and are not a part of the agency's established policies and procedures. Additional controls should be created to formally address the administrative and processing errors detailed in Table 2, as well as other errors identified by RTP-FC and Office of Acquisition Management staff.

During interviews, RTP-FC management and staff suggested that the EPA adopt e-invoicing, which may detect many vendor data entry errors automatically, thus helping to eliminate interest payments; enable the finance center staff to perform other tasks; and allow the EPA to take advantage of prompt payment discounts.

EPA Is at Risk for Interest Penalties and Missed Opportunities to Save Taxpayer Dollars

The EPA on average pays out more than \$1.2 billion annually to contractors. We found that the agency could have saved taxpayers over \$95,000 in interest penalties over a 2-year period if contract invoices were paid in accordance with the Prompt Payment Act and OMB regulations. The EPA will continue to put taxpayer dollars at risk for interest penalties due to manual processing errors. Implementation of an e-invoicing system may aid the EPA in reducing administrative and processing errors, as well as any related interest penalties.

Recommendation

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

2. Develop and implement measurable controls in coordination with the Office of the Chief Financial Officer for each office's role in processing contract invoices and contract modifications to address administrative and processing errors.

Agency Comments and OIG Evaluation

We issued our draft report on June 14, 2018, but did not receive a response from the agency within 30 days of the issuance date, as requested by the OIG and required by EPA Manual 2750. We consider this recommendation unresolved and will work with the agency to reach a resolution.

Chapter 4

EPA Needs to Improve Its Processing of Discounts

The EPA did not always process invoices within the specified prompt payment discount periods when such discounts were offered. From October 1, 2015, to September 30, 2017, the EPA failed to take advantage of 56 percent of the total amount of discounts offered, which represents over \$197,000 in missed discounts. OMB regulations at 5 CFR § 1315.7(a) state that an agency may take discounts if they are “economically justified,” but only after “acceptance has occurred.” However, the RTP-FC said that late receipt of invoice approvals from CORs often caused the EPA to miss deadlines for prompt payment discounts. The EPA therefore missed the opportunity to save taxpayer dollars, which would have provided the agency with additional funds for mission-critical programs.

Prompt Payment Act and EPA Policy Address Discounts

As discussed in Chapter 3 of this report, the OMB’s “Prompt Payment” regulations at 5 CFR Part 1315 require federal agencies to pay their bills on a timely basis and to pay interest penalties when payments are late. Per these regulations, agencies may take prompt payment discounts when payments are made. The regulations also mandate that agencies review each invoice as soon as practicable after receipt to determine whether it is proper.

Furthermore, 5 CFR § 1315.7(a) states that if an agency is offered a discount by a vendor, whether stipulated in the contract or offered on an invoice, the agency may take the discount if “economically justified,” but only after “acceptance has occurred.” Agencies are encouraged to include discount terms in a contract to give them adequate time to process any economically justified discounts.

In addition to stating the government’s policy to “review invoices thoroughly for cost reasonableness and to process invoice submittals in a timely manner,” the EPAAG, Subsection 32.9.1, “Invoice Review,” emphasizes the EPA’s commitment to taking advantage of prompt payment discounts:

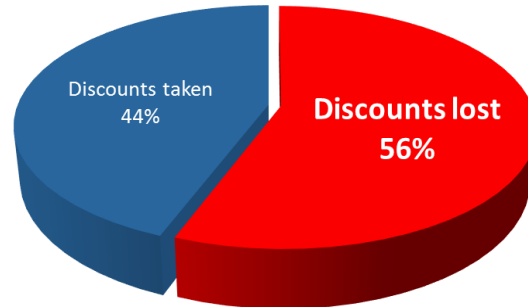
The Agency also diligently seeks discounts for prompt payment. “Discount for prompt payment” means an invoice payment reduction offered by the contractor in exchange for payment prior to the due date, which is typically 30 calendar days after receipt of a proper invoice.

EPA Did Not Take Discounts Offered on Contract Invoices

Of the 653 invoices that offered prompt payment discounts from October 1, 2015, to September 30, 2017, the EPA did not take advantage of discounts offered by

259 of them. The missed discount opportunities represented \$197,024 (56 percent) out of a total of \$352,636 in discounts offered in FYs 2016 and 2017 (Figure 4). The EPA did not take these discounts even though the agency considered the discounts economically justifiable and accepted the services rendered as conforming to the contract requirements.

Figure 4: Percentage of total dollar value of discounts offered and lost (FYs 2016–2017)



Source: OIG image.

Table 3 details the payment totals for contract invoices processed during FYs 2016 and 2017.

Table 3: EPA prompt payment discounts in FYs 2016 and 2017

Total number of invoices paid	55,549
Total amount disbursed	\$2,406,518,295
Discounts offered and advantageous	\$352,636
Discounts lost	\$197,024 56% of value offered
Discounts taken	\$155,612 44% of value offered

Source: OIG analysis of EPA contract invoice data.

The EPA’s CPS is designed to automatically notify staff of upcoming payment deadlines, according to the general 30-day allowable period specified in the FAR. We did observe that automated reminder notices of upcoming contract invoice payment due dates were provided to invoice approving officials. However, the CPS does not notify EPA staff of expiring discount periods.

EPA Needs More Controls to Maximize Prompt Payment Discounts

The EPA needs more controls over contract invoice payments that offer prompt payment discounts. While the EPAAG, Subsection 32.9.1, states that the EPA diligently seeks discounts for prompt payment, we only observed policies to record and track discounts. The EPA does not have policies or procedures to aid staff in taking the discounts.

In the EPA’s FY 2016 *Agency Financial Report*, the agency states that it continues to explore ways in which the “discount taken” rate can be increased to reduce improper payments. For example, the Office of Acquisition Management told us that while the EPA does not always include prompt payment discounts within the terms of its contracts, it is smarter to leverage the agency’s buying power to include discounts as contractually negotiated rates than to obtain discount terms in

individual invoices. In addition, the RTP-FC, which tracks the EPA’s performance in taking prompt payment discounts, provided us with a list of the “top five” invoices with lost discounts for December 2017 and January 2018, along with the corrective actions taken for those five instances. The RTP-FC cited several reasons why the agency failed to take advantage of offered discounts, including the late receipt of invoice approvals from the COs and CORs and internal processing delays. The corrective actions taken by the RTP-FC to address the causes of these five lost discounts included reinforcing current internal control procedures and reassigning contracts with discounts to a specific workload.

Because more than 50 percent of discounts were lost in FYs 2016 and 2017 and because the agency is aware of some causes of the lost discounts, the EPA should create internal controls to improve the amount of offered discounts taken.

EPA May Continue to Miss Discount Deadlines and Opportunities to Save Taxpayer Dollars

Because of lost discounts, the EPA missed the opportunity to save taxpayers over \$197,000 during a 2-year period and put those funds to better use. The EPA may continue to waste taxpayer dollars—which could instead be used to protect human health and the environment—if discounts are not taken. Implementation of e-invoicing may help EPA lower the amount of discounts lost by reducing manual invoice processes and the time to approve invoices.

Recommendations

We recommend that the Chief Financial Officer:

3. Develop and implement measurable controls that address internal processing delays identified by the agency as reasons why prompt payment discounts were not taken.
4. Develop and implement measurable controls that provide staff with guidance on taking prompt payment discounts before the discount period ends and that notify approving officials of expiring discount periods, so that prompt payment discounts can be taken when economically justified in compliance with the Prompt Payment Act and Office of Management and Budget regulations at 5 CFR Part 1315.

Agency Comments and OIG Evaluation

We issued our draft report on June 14, 2018, but did not receive a response from the agency within 30 days of the issuance date, as requested by the OIG and required by EPA Manual 2750. We consider these recommendations unresolved and will work with the agency to reach a resolution.

Chapter 5

Systemic Improvements Are Needed to CO and COR Oversight Responsibilities

The EPA's COs and CORs did not always perform the federally required oversight responsibilities when processing contract invoices for payment. EPAAG Subsection 32.9.1, "Invoice Review," states that the CO may delegate the authority to review and approve contract invoices to the COR, but that the CO is still responsible for periodically monitoring the COR invoice reviews, including at least one annual detailed invoice review each contract year. Additionally, the FAR and agency policy require that COs and CORs maintain a file for each assigned contract to document the actions taken. However, we found that COs lacked documentation to support the delegation of duties to CORs and did not perform the required annual contract invoice reviews due to time constraints. In addition, CORs did not provide documentation to show that invoice reviews were completed prior to approval and payment. We identified similar issues in two prior audit reports issued in FYs 2016 and 2017. The nonperformance of critical CO and COR oversight duties is a systemic issue that leaves the EPA vulnerable to fraud, waste and abuse. Furthermore, when documentation for completed reviews is not available, the EPA does not have reasonable assurance that invoice payments for contractor work were allowable, allocable and reasonable.

Federal Regulations and EPA Policies Outline CO and COR Responsibilities

FAR Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities," Section 1.602-2(d), requires that COs, in accordance with agency procedures, designate and authorize in writing a COR for all contracts other than firm-fixed-price contracts, unless the CO retains and executes the COR duties. Additionally, Section 1.604 of these regulations specifies that CORs "shall maintain a file for each assigned contract," along with "[d]ocumentation of COR actions taken in accordance with the delegation of authority."

Subsection 32.9.1 of the EPAAG, "Invoice Review," provides the following guidance regarding CO and COR responsibilities for the invoice review-and-approval process:

The Contracting Officer (CO) is ultimately responsible and accountable for invoice processing under individual contracts. ... the CO may delegate authority to review and approve contract invoices/vouchers to the Contracting Officer's Representative (COR). However, the CO still retains the responsibility to ensure that invoices are processed accurately and in a timely manner.

Specific CO responsibilities outlined in the EPAAG include “[m]aintaining record of invoices submitted, payments, discounts taken, suspensions, disallowances, and refunds” and “periodic monitoring” of a COR’s invoice review. The policy stipulates that “at least one detailed review of a contract invoice for each contract year” must be part of this periodic monitoring. Furthermore, EPAAG Subsection 32.9.1.5 states that “[a]pproving officials involved in invoice reviews must ... maintain records of their invoice reviews and actions taken as a result of the reviews.”

The EPA’s *Invoice Review & Approval Desk Guide* outlines the responsibilities, procedures and instructions governing the review and approval of contract invoices. The guide includes the following direction:

All CORs must document in their files that invoice reviews were performed. A file of all invoices, monthly progress reports, invoice review checklists, and all other documentation associated with the reviews must be maintained for the life of the contract or applicable records retention requirements, whichever is longer. ... **ALL** payment authority, under contractual instruments, must be specifically delegated in writing by the CO in accordance with current COR Policy, before anyone other than a CO is authorized to approve invoices, vouchers, progress payments, advance payments or any other payments made under an EPA contract.

Furthermore, the EPA’s Performance Appraisal and Recognition System (PARS) for the CO and COR positions we reviewed includes standards, measures and metrics related to invoice processing (Table 4).

Table 4: CO and COR PARS standards related to invoice processing

CO standards	COR standards
<ul style="list-style-type: none"> Managing contracts in accordance with applicable laws, the FAR, and agency regulations and policies. Reviewing documents generated by contract specialists and COs for contract placement, management and closeout in accordance with established milestones or agreed-upon time frames. 	<ul style="list-style-type: none"> Monitoring project progress. Approving, disapproving or suspending invoices to ensure that the government receives the services purchased according to the details of the contractual agreement. Approving payments of vouchers by the approval due date.

Source: OIG analysis of the EPA’s PARS.

EPA Could Not Locate or Provide Invoice Process Documentation

Some COs lacked documentation to support the delegation of duties to CORs for their assigned contracts. COs did not designate and authorize in writing CORs for three of the 18 contract invoices we sampled. Additionally, records documenting COR invoice reviews were not always available upon request. COs either did not perform or did not have documentation for the required annual contract invoice

reviews for 10 of the 18 contract invoices we sampled. In addition, CORs could not provide documentation (such as a checklist) that indicated invoice reviews were performed prior to approving five of the 18 contract invoices we sampled.

Three COs said that delegation memorandums were either not drafted or not signed. Two COs said that they did not perform the required annual contract invoice reviews due to staff limitations and other priorities. One OARM staff member stated that, in some cases, the CORs' contract duties are a small percentage of their overall workload and therefore invoice reviews are not taken seriously.

Prior audits related to contracts and invoice processing identified similar findings and causes. Specifically, COs interviewed during fieldwork for OIG Report Nos. 16-P-0078 and 17-P-0380 cited workload as a reason for not completing the required annual contract invoice reviews. Additionally, the COR interviewed for Report No. 16-P-0078 did not have knowledge of the specific invoice review requirements. That COR was also unaware of and did not use an available checklist to review monthly invoices.

COs and CORs Continue to Not Comply with Federal Regulations, EPA Policies

The recurrent findings of CO and COR nonperformance of their duties cited in this and prior OIG reports indicate a systemic issue throughout the EPA. COs and CORs have measures and metrics specified within the EPA's PARS, against which their supervisors are to annually evaluate their performance of oversight duties related to contract management. COs and CORs should be performing their duties as required by EPA policies and their individual PARS.

As described in the "Prior Reports" section in Chapter 1 of this report, we have issued previous audit reports that highlight instances of CO and COR nonperformance of oversight responsibilities related to contract invoices and reviews. Specifically, we issued two reports with recommendations addressing these deficiencies:

- OIG Report No. [16-P-0078](#) recommended the implementation of a management internal control to ensure that CO invoice reviews are performed in accordance with the EPA's *Invoice Review & Approval Desk Guide* (Recommendation 5). The report also recommended that the CO periodically review the COR's contract files to verify that proper documentation is maintained (Recommendation 8). The agency agreed with these recommendations and said that it completed corrective actions for Recommendation 5 in October 2016 and Recommendation 8 in October 2015. The agency stated that corrective actions for Recommendation 5 would include developing and implementing an approach to oversee compliance with invoice review polices and guidance. OARM planned to address Recommendation 8 as a performance issue.

- EPA OIG Report No. [17-P-0380](#) recommended that the COR perform periodic spot checks to verify that all required information is included in the contract invoices (Recommendation 3). The agency agreed with the recommendation and said that it completed corrective action in June 2017. The agency stated that corrective actions for Recommendation 3 would include written follow-up documentation that reviews of invoices are comprehensive and documented appropriately.

These two prior reports—along with our findings in this and other reports, as detailed in the “Prior Reports” section in Chapter 1—indicate that CO and COR nonperformance of their oversight duties is an agencywide systemic issue that the EPA should address. The agency needs to verify that the corrective actions addressing the prior report findings, which it stated were completed, have been performed and are effective, since similar nonperformance of CO and COR oversight duties have been identified in this report.

Lack of Accountability Increases Risk for Fraud, Waste and Abuse

Across the agency, COs and CORs may lack accountability for the contract management oversight duties outlined in their individual PARS. The nonperformance of critical CO and COR oversight duties, which act to safeguard taxpayer dollars, is a systemic issue that leaves the EPA vulnerable to fraud, waste and abuse. Furthermore, when documentation demonstrating CO and COR contract invoice reviews is not available, the EPA lacks reasonable assurance that invoice payments for contractor work were allowable, allocable and reasonable.

Recommendation

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

5. Verify that contracting officers are performing oversight responsibilities per the agreed-upon corrective actions from prior OIG reports, and implement agencywide measurable controls to address nonperformance of contractor officer invoice process oversight responsibilities in accordance with Federal Acquisition Regulation Subpart 1.6, EPA Acquisition Guide Subsection 32.9.1, and the EPA’s Performance Appraisal and Recognition System, as applicable.

Agency Comments and OIG Evaluation

We issued our draft report on June 14, 2018, but did not receive a response from the agency within 30 days of the issuance date, as requested by the OIG and required by EPA Manual 2750. We consider this recommendation unresolved and will work with the agency to reach a resolution.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	7	Develop a plan with milestone dates to implement an electronic invoicing system to meet the Office of Management and Budget fiscal year 2018 requirement.	U	Chief Financial Officer		
2	12	Develop and implement measurable controls in coordination with the Office of the Chief Financial Officer for each office's role in processing contract invoices and contract modifications to address administrative and processing errors.	U	Assistant Administrator for Administration and Resources Management		95
3	15	Develop and implement measurable controls that address internal processing delays identified by the agency as reasons why prompt payment discounts were not taken.	U	Chief Financial Officer		197
4	15	Develop and implement measurable controls that provide staff with guidance on taking prompt payment discounts before the discount period ends and that notify approving officials of expiring discount periods, so that prompt payment discounts can be taken when economically justified in compliance with the Prompt Payment Act and Office of Management and Budget regulations at 5 CFR Part 1315.	U	Chief Financial Officer		
5	19	Verify that contracting officers are performing oversight responsibilities per the agreed-upon corrective actions from prior OIG reports, and implement agencywide measurable controls to address nonperformance of contractor officer invoice process oversight responsibilities in accordance with Federal Acquisition Regulation Subpart 1.6, EPA Acquisition Guide Subsection 32.9.1, and the EPA's Performance Appraisal and Recognition System, as applicable.	U	Assistant Administrator for Administration and Resources Management		

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

Contract Invoice Payment Samples Selected for Audit

Sample	Program office/region	Invoiced amount *	Disbursed amount *
Invoice A	Office of Land and Emergency Management	\$15,554	(\$15,554)
Invoice B	Office of Land and Emergency Management	285,774	288,524
Invoice C	Office of Land and Emergency Management	632,061	634,301
Invoice D	Office of Land and Emergency Management	6,407	(6,407)
Invoice E	Office of Land and Emergency Management	26,852	(26,852)
Invoice F	Office of Land and Emergency Management	209,008	209,357
Invoice G	Office of Environmental Information	25,232	(25,232)
Invoice H	Office of Environmental Information	9,134	(9,134)
Invoice I	Office of Environmental Information	30,023	(30,023)
Invoice J	Office of Environmental Information	208,181	208,702
Invoice K	Office of Environmental Information	224,050	224,517
Invoice L	Office of Environmental Information	427,822	428,713
Invoice M	Region 5	37,457	(37,457)
Invoice N	Region 5	1,885,515	1,889,837
Invoice O	Region 5	177,132	177,936
Invoice P	Region 5	68,973	69,257
Invoice Q	Region 5	92,165	(92,165)
Invoice R	Region 5	62,532	(62,532)
Totals		\$4,423,872	\$3,825,786

Source: EPA contract invoice data.

* Invoiced amounts have disbursed negative amounts due to financial transaction corrections or payments made to the EPA from the contractor.

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