



At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), performed this audit to determine whether the EPA collects the full cost of the services it provides through interagency agreements (IAs). The OIG also analyzed whether the EPA bills other agencies for its full costs (both direct and indirect).

An IA is a written agreement between federal, state or local agencies through which goods or services are provided. We also reviewed EPA Region 5's Great Lakes National Program Office (GLNPO) project agreements, which are similar to IAs. Those project agreements are binding cost-sharing agreements between GLNPO and nonfederal sponsors (i.e., state and local governments, industry, and other partners) to clean up contaminated sediment in the Great Lakes areas of concern. The EPA's Office of Administration and Resources Management administers IAs, and the GLNPO administers project agreements.

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

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

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The full report is at: www.epa.gov/oig/reports/2015/20150930-15-P-0300.pdf

EPA Should Collect Full Costs for Its Interagency Agreements and Report Full Costs for Great Lakes Legacy Act Project Agreements

What We Found

EPA project officers did not include indirect costs in agreed-upon cost estimates for IAs, or use the appropriate indirect cost rate for 15 IAs. When the agreed-upon cost estimate did not include indirect costs, the Cincinnati Finance Center reduced the direct costs and added indirect costs. Although this practice indicated the EPA recovered full costs, the EPA may not have provided all services needed by the other agencies.

By reallocating direct costs to indirect costs, the EPA may not have provided all of the services needed by the other parties to the interagency agreement.

Federal cost accounting standards direct the agency to report the full cost of products and services it generates. EPA guidance directs project officers to put indirect costs into funds-in IAs (in which the EPA is reimbursed for goods or services provided to another entity), but some project officers were not aware of the guidance. By not including indirect costs in agreed-upon cost estimates, the EPA had to reduce direct costs and may not have been able to provide all of the necessary services. We estimate that the EPA could have potentially recovered an additional \$6.4 million in 15 of the IAs we examined if the agency had included appropriate indirect costs in the agreed-upon cost estimate.

The EPA did not include direct labor and indirect costs in the Great Lakes Legacy Act project agreements. If the EPA had reported total project costs while including direct labor and indirect costs in the total costs, the EPA could have collected the nonfederal sponsors' share of the direct labor and indirect costs, which we estimated at \$2.7 million per year.

Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for Administration and Resources Management work with the Chief Financial Officer to emphasize the funds-in IA guidance requirements to project officers, and train project officers to prepare cost estimates with indirect costs. We also recommend that the Regional Administrator, Region 5, working with the Chief Financial Officer, direct the GLNPO to track the Great Lakes Legacy Act project agreement direct labor costs. Based on discussions with the agency, we revised a recommendation to now have the Regional Administrator, Region 5, direct GLNPO to report full costs without charging direct labor and indirect costs to non-federal sponsors.

The agency concurred with and provided acceptable corrective actions and milestone completion dates for all recommendations except one. The recommendation for the Regional Administrator, Region 5, to direct GLNPO to report full costs is unresolved pending receipt of a planned corrective action and milestone date.