



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 6
1445 ROSS AVENUE, SUITE 1200
DALLAS, TEXAS 75202 - 2733

APR 3 - 2014

Office of the Regional Administrator

MEMORANDUM

SUBJECT: Response to Office of Inspector General Report No. 14-P-0109 "Internal Control Needed to Control Costs of Emergency and Rapid Response Services Contracts, as Exemplified in Region 6", dated February 4, 2014

FROM: for Ron Curry
Regional Administrator

A handwritten signature in black ink, appearing to read "Sam Colman", written over the printed name of the Regional Administrator.

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for the opportunity to respond to the subject Office of Inspector General (OIG) Report. This report outlined five recommendations of which three were agreed to at the time of issuance. To address the unresolved issues, EPA Region 6, the Office of Acquisition Management and the OIG conducted several meetings to address the internal control findings under one of the Emergency and Rapid Response Services contracts.

As a result of these meetings and a final discussion on March 7, 2014, Region 6 and the OIG reached an agreed upon path forward for resolving these remaining two issues. Specifically, we will require the contractor to adjust all of its past billings to account for the correct rate for its team-subcontractors. This effort will be initiated during the contract close-out process when the final indirect cost rates are established. For future billings, we will require the contractor to apply its composite rate to the team-subcontractors' other direct costs (ODC) and will also require the contractor to document its practice.

Attached is a more detailed explanation of our response to the OIG recommendations. I want to thank you and your staff for working with us through these issues. We believe that working together can improve the Agency's service to impacted communities.

If you have any questions about this letter, please call me at (214) 665-2100, or your staff may contact Susan Jenkins, Audit Follow-up Coordinator, at (214) 665-6578, or by email at jenkins.susan@epa.gov.

Attachment

cc: Richard Eyer mann, OIG
Janet Kasper, OIG
Regina Milbeck, R6/MD
Carl Edlund, R6/SF

Response to Recommendations Table

No.	Recommendation	High-Level Intended Corrective Action(s)	Est. Completion Date
1	Require procurement personnel to conduct internal control reviews twice a year.	Region 6 concurs with Recommendation No. 1 and agrees to conduct internal control reviews in accordance with the Peer Review Process in the Quality Assessment Plan (QAP).	6/30/2014
2	Identify contract management as a weakness in Region 6's next Federal Managers' Financial Integrity Act annual assurance letter unless Region 6 starts conducting internal control reviews twice a year.	Region 6 agreed to the corrective action in Recommendation No. 1; therefore, a corrective action for Recommendation No. 2 is not required.	Not Applicable
3	Direct COs to require that the contractor adjust all its billings to reflect the application of correct rate to team subcontract ODCs.	Region 6 concurs with Recommendation No. 3 and agrees to require the contractor to adjust all its past billings to reflect the application of the composite rate to team-subcontractor ODCs that were arranged for and paid for by the team-subcontractor. We intend to implement the corrective action when final indirect cost rates (ICR) are established. Therefore, the CO will be directed to defer past billing adjustments until the Defense Contract Audit Agency (DCAA) audits the indirect cost rates and the EPA Financial Administrative Contracting Officer (FACO) negotiates, approves and issues a Final Indirect Cost Rate (ICR) Agreement for the past billing periods (i.e. Years 2007 to 2013).	FY 2024
4	Direct COs to work with the contractors to modify future billings.	Region 6 concurs with Recommendation No. 4 for future billings. The contractor will be required to apply its composite rate to team-subcontractor ODCs when the team-subcontractor arranges and pays for the ODCs. In addition, we will require the contractor to document its practice and composite rate breakdown.	3 rd Quarter FY 2014
5	Require that proposals for future ERRS contracts include subcontractor rates as required by the amended FAR.	Region 6 concurs with Recommendation No. 5 and agrees to require proposals for future ERRS contracts to include subcontractor rates as required by the amended Federal Acquisition Regulations (FAR) and to recommend negotiated blended rates to the Placement Contracting Officers.	FY 2015