



At a Glance

Why We Did This Review

Our objectives were to determine the methodology the U.S. Environmental Protection Agency (EPA) uses to calculate indirect cost rates for reimbursable interagency agreements (RIAs), and whether EPA is applying the correct indirect cost rates for selected RIAs.

An interagency agreement is a written agreement between federal, state, or local agencies through which goods or services are provided on a funds-out or funds-in basis. The term funds-in applies to an interagency agreement in which EPA provides goods or services to another agency or to a state or local government and is reimbursed for its expenses.

This report addresses the following EPA Goal or Cross-Cutting Strategy

- *Strengthening EPA's workforce and capabilities.*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2012/20120919-12-P-0835.pdf

EPA Could Recover More Indirect Costs Under Reimbursable Interagency Agreements

What We Found

EPA did not recover \$11 million in indirect costs on funds-in RIAs. Federal entities are required to recognize the full cost of goods and services provided among federal entities; full cost includes both direct and indirect costs. For 54 of 59 RIAs reviewed, EPA did not bill other federal agencies the full amount of indirect costs. This occurred because:

- EPA exempted itself from recovering indirect costs on RIAs awarded under 19 statutory authorities.
- EPA issued policies where indirect costs do not apply to RIAs awarded before the policies were effective nor to any agreement amendments.
- EPA issued policies stating that indirect rates in effect at the time the RIA is negotiated will apply for the life of the RIA.
- Other miscellaneous calculating and billing errors occurred.

We estimated that EPA could have recovered \$11 million in indirect costs based on rates for fiscal years 2010 and 2011. Based on amounts remaining in open agreements, we calculated an additional \$2.5 million could be billed during the remaining project periods. The additional indirect costs recovered could be used to pay for other environmental activities.

Recommendations and Agency Corrective Actions

We recommend that the Chief Financial Officer revise Agency policy to include indirect costs in all RIAs; revise the rules and policies for future actions to include the ability to recover indirect costs and educate the EPA on the new policies while implementation is in progress; revise Agency policy to require that amendments to all RIAs include indirect costs based on current rates; correct the indirect cost rate billing errors noted; and develop policy and procedures to verify that correct indirect cost rates are used.

EPA agreed with all our recommendations or agreed to take actions that satisfy the intent of the recommendations. The Agency has updated policy to clarify that indirect costs should be included in all RIAs, is correcting billing errors, and plans to develop policy to ensure that correct indirect cost rates are used. Recommendation 4 is unresolved pending receipt of a date to correct billing errors.

Noteworthy Achievement

EPA centralized interagency agreement activities within two service centers to increase consistency in operations and improve efficiency and effectiveness.