

December 14, 2012

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Final Report No. 12-P-0835  
“EPA Could Recover More Indirect Costs Under Reimbursable Interagency  
Agreements,” dated September 19, 2012

**FROM:** Barbara J. Bennett /s/ *Original Signed By:*  
Chief Financial Officer

**TO:** Arthur A. Elkins, Jr.  
Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the U.S. Environmental Protection Agency’s overall position, along with its position on each of the report recommendations. For those report recommendations with which the agency agrees, we have provided either high-level intended corrective actions and estimated completion dates to the extent we can or reasons why we are unable to provide high-level intended corrective actions and estimated completion dates at this time. For the report recommendation with which the agency does not agree, we have explained our position and proposed an alternative to the recommendation.

**AGENCY’S OVERALL POSITION**

The agency agrees with four of the recommendations presented in the audit report and has completed corrective actions for each.

**AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS  
Agreements**

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by FY
1	Revise agency policy to clarify that indirect costs should be included in all Reimbursable Interagency Agreements unless a determination has been made that statutory authority used for an RIA specifically exempts charging of indirect costs.	Interim Interagency Agreements and Financial Policy notices were sent to all IA Project Officers and the Cincinnati Finance Center by the Office of Financial Management and the Office of Grants and Debarment.	Completed 4/4/2012

3	Revise Agency policy to require that amendments to all RIAs include indirect costs based on current indirect costs.	The new Resource Management Directive System 2540-13-T1 explains that the agency must apply full-cost billing to all funds-in IAs unless expressly prohibited by statutory authority. The agency's ability to bill both direct and indirect costs is dependent on the authority for a particular IA, the circumstances involved, and the nature of the costs for which payment is made. This release also states that the agency applies full-costs to both federal and non-federal IAs. The updated policy is available at <a href="http://intranet.epa.gov/ocfo/policies/direct/2540-13-t1_tech_interpretation.pdf">http://intranet.epa.gov/ocfo/policies/direct/2540-13-t1_tech_interpretation.pdf</a> .	Completed 7/10/2012
4	Correct the indirect cost rate billing errors.	The agency developed cradle to grave Standard Operating Procedures on financial management of RIAs. All existing RIAs that do not have the appropriate indirect cost rates applied will be renegotiated if a new monetary action is initiated by the program.	Completed 8/31/2012
5	Develop policy and procedures to ensure that the correct indirect costs rates are used.	The agency revised its July 2012 version of RMDS 2540-13-T1 to clarify the types of funds-in interagency agreements subject to full cost billing and provides examples of calculating direct and indirect costs on funds-in interagency agreements and grants. The updated policy is available at <a href="http://intranet.epa.gov/ocfo/policies/direct/2540-13-t1_tech_interpretation.pdf">http://intranet.epa.gov/ocfo/policies/direct/2540-13-t1_tech_interpretation.pdf</a> . In addition, the Office of Grants and Debarment developed revised policy and created a tool to ensure the accurately charge billing for future actions.	Completed 10/18/2012

#### Disagreements

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
2	Amend RIAs awarded before the policy effective dates to include the ability to recover indirect costs.	Please see attached document that details the agency's reason for disagreement.	Revise the rules and policies for future actions and educate the EPA on the new policies while implementation is in progress.

#### CONTACT INFORMATION

If you have any questions regarding this response, please contact Jeanne Conklin, Deputy Director of the Office of Financial Management on (202) 564-5342 or Sandy Dickens of the Financial Policy and Planning Staff on (202) 564-0606.

Attachment

cc: Maryann Froehlich  
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Agency Explanation for Disagreement with Recommendation 2

The U.S. Environmental Protection Agency disagrees with the Office of Inspector General recommendation number two; amend Reimbursable Interagency Agreements awarded before the policy effective dates to include the ability to recover indirect costs.

Implementing this recommendation is impractical for a number of reasons.

First, opening RIAs for the sole purpose of collecting indirect costs is not cost effective. In addition to the time and effort of the Inter Agency Shared Service Centers, Project Officers would need to renegotiate existing agreements to seek additional funding from our partner agencies (funding the partners may not have available), and process new RIA amendments. The burden in payroll costs would significantly offset any return. As an example of the scope, in FY 2011 and FY 2012, fewer than 300 total actions (including amendments and no-cost extensions) have been processed for reimbursable IAs.

Second, management and tracking of such an amendment process would be impractical. Given the time and requirements necessary to negotiate and process amendments, these older awards will continue to expire and be closed during the process. Additionally, depending upon the age and funding sources of these awards, we would also need to manage multiple indirect rates across each award.

Third, implementation of a policy retroactively is not recommended for practical reasons. We cannot change the rules for the in place RIA's that the agency negotiated and legally accepted. We can, however, revise the rules and policies for future actions and educate the EPA on the new policies while implementation is in progress. The Office of the Chief Financial Officer and the Office of Grants and Debarment has begun this process.