



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Audit Report

# EPA Can Improve the Use of Financial Monitoring Reviews for Recovery Act Superfund Contracts

Report No. 11-R-0081

January 31, 2011



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**Abbreviations**

EPA	U.S. Environmental Protection Agency
FAR	Federal Acquisition Regulation
FMR	Financial monitoring review
FY	Fiscal year
GAO	U.S. Government Accountability Office
OAM	Office of Acquisition Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
QAP	Quality assurance plan



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Audit

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) is implementing its American Recovery and Reinvestment Act of 2009 Stewardship Plan for Superfund contracts as it relates to cost controls, and is using the results of financial monitoring reviews (FMRs) as a project management tool for Recovery Act Superfund contracts.

## Background

The Recovery Act provided \$600 million in supplemental funding for Superfund remedial cleanups. As of August 2010, EPA's Superfund program expended \$246 million of the Recovery Act funds. EPA's stewardship plan specified monitoring functions related to cost controls for contracts. The Office of Acquisition Management's FMR program selectively reviews high-risk active contracts valued over \$5 million.

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

The full report is at:  
[www.epa.gov/oig/reports/2011/20110131-11-R-0081.pdf](http://www.epa.gov/oig/reports/2011/20110131-11-R-0081.pdf)

## ***EPA Can Improve the Use of Financial Monitoring Reviews for Recovery Act Superfund Contracts***

### **What We Found**

EPA is implementing the monitoring functions established in the contracts functional area of the EPA Recovery Act stewardship plan. The stewardship plan is largely based on the U.S. Government Accountability Office's *Internal Control Standards*, the Office of Management and Budget's *Recovery Act Implementation Guidance*, and controls contained in EPA's *Contracts Management Manual*. These monitoring functions are standard internal controls EPA uses to manage contracts. EPA's implementation of these functions should help ensure that a high degree of accountability is associated with the investment of Recovery Act funds.

While EPA is implementing the stewardship plan in conducting FMRs, program staff are not always aware of the results of the FMRs and, therefore, cannot use the FMRs as a project management tool for Superfund projects funded by the Recovery Act. The Office of Acquisition Management's FMR report distribution guidance requires that the FMRs be distributed to contracting officers but not program staff. As a result, program staff do not always have the information they need to effectively manage their projects and perform invoice reviews. Program staff are at risk of approving ineligible invoiced costs because they do not have the knowledge of FMR cost-related issues that impact contract costs being billed.

### **Recommendation and Corrective Action Taken**

We recommended in the draft report that the Assistant Administrator for Administration and Resources Management revise policies and procedures to ensure that FMR reports are distributed timely to all project officers, work assignments managers, and task order managers assigned to the contract impacted by the FMR, as well as those working on other active contracts with the same contractor. In response to the draft report, EPA agreed with our recommendation and said it will update its internal Financial Analysis and Oversight Standard Operating Procedures to require that FMR reports be distributed to cognizant contracting officers and project officers. The contracting officers and project officers will be advised to further disseminate the report(s) to all parties associated with the contract, including delivery order project officers, task order project officers, and work assignment managers. The Agency implemented the corrective action on October 22, 2010.




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

THE INSPECTOR GENERAL

January 31, 2011

**MEMORANDUM**

**SUBJECT:** EPA Can Improve the Use of Financial Monitoring Reviews for Recovery Act Superfund Contracts  
Report No. 11-R-0081

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

**TO:** Craig E. Hooks  
Assistant Administrator for Administration and Resources Management

This is the Office of Inspector General's (OIG's) report on the U.S. Environmental Protection Agency's (EPA's) implementation of the Recovery Act Stewardship Plan for Superfund remedial contracts. This report contains findings that describe problems the OIG has identified and corrective actions the OIG recommends. This report represents the position of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in the report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report, calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time, is \$333,971.

**Action Required**

In responding to the discussion draft report, the Agency provided a corrective action plan for addressing the recommendation. Therefore, a response to the final report is not required. We have no objections to the further release of this report to the public. The report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact Melissa Heist, Assistant Inspector General for Audit, at 202-566-0899 or [heist.melissa@epa.gov](mailto:heist.melissa@epa.gov); or Janet Kasper, Product Line Director, at 312-886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

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# Chapter 1

## Introduction

### Purpose

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) conducted this audit to determine whether EPA is implementing its Recovery Act Stewardship Plan for Superfund contracts as it relates to cost controls. We also conducted the audit to determine whether EPA is using the results of financial monitoring reviews (FMRs) as a project management tool for Recovery Act-funded Superfund contracts.

### Background

The purpose of the Recovery Act is to create and save jobs, jump-start the economy, and build the foundation for long-term economic growth. The Recovery Act provided \$600 million in supplemental funding for Superfund remedial cleanups. As of August 2010, EPA's Superfund program had expended \$246 million of the Recovery Act funds.

EPA established a Recovery Act Steering Committee to monitor Recovery Act planning and implementation. The steering committee established an internal controls workgroup that created the Recovery Act Stewardship Plan to monitor and mitigate risk in implementing the Recovery Act. The committee's internal controls workgroup is composed of seven functional area subcommittees made up of program office, administrative, and regional representatives. Using the Office of Management and Budget (OMB) *Recovery Act Implementation Guidance*, the contracts subcommittee identified control objectives, with corresponding risk assessments, control activities, and monitoring functions designed to ensure that the objectives are achieved.

The contracts functional area of the February 16, 2010, stewardship plan identified several monitoring functions. We reviewed six of these related to cost controls for EPA Superfund contracts: invoice reviews, FMRs, meetings with regional contracting office supervisors and Office of Acquisition Management (OAM) division directors, meetings between contracting officer representatives and contractors, review of monthly progress reports, and use of appropriate Recovery Act clauses in contracts.

The FMR program is an integral part of OAM's overall contract management review process. The primary objective is to assure that contractor invoices are adequately supported by their cost accounting system and supporting documents in order to be considered a financially sound basis for payment, in accordance

with the terms and conditions of the contract. OAM selectively reviews active contracts valued at over \$5 million.

The reviews are performed on-site at contractor locations. FMRs are performed by a professional staff of auditors who assist the Contracting Officers/Financial Administrative Contracting Officers/Project Officers. The FMR group provides its report directly to the contracting officer, who is responsible for resolving the recommendations, usually within 90 days. According to OAM, FMR reports have raised numerous issues that have been resolved or are in the process of being resolved. Overpayments have been recovered, dollars have been saved, contracts have been corrected, audits have been initiated, supporting documents have been prepared, and procedures have been improved.

## Scope and Methodology

We performed this audit from October 2009 to September 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether EPA is implementing its Recovery Act Stewardship Plan related to cost controls, we reviewed EPA's Recovery Act Stewardship Plan and *Contracts Management Manual*, OMB's *Recovery Act Implementation Guidance*, the Recovery Act, and the U.S. Government Accountability Office's (GAO's) *Internal Control Standards*. We surveyed nine regions and four OAM contracting offices concerning their implementation of the stewardship plan related to the six cost control monitoring functions. We interviewed the Contracts Lead for the stewardship plan, and Office of Solid Waste and Emergency Response staff concerning project management principles and techniques used to avoid unnecessary cost overruns and delays. We visited Region 5 and reviewed contracts and work assignments, and interviewed the Superfund branch chief and section chief. We also interviewed regional contracting officers and project officers in Regions 5 and 7.

To determine whether EPA is using the results of FMRs as a project management tool for Recovery Act-funded Superfund contracts, we reviewed the FMR distribution policy. We also compared the July 1, 2010, Recovery Act obligations and disbursements for the Superfund Program to the FMRs completed for fiscal years (FYs) 2009 and 2010 through July 7, 2010, to determine which Recovery Act Superfund contracts had a completed FMR. We identified five contracts with Recovery Act disbursements that also had an FMR completed in 2009 and 2010. From each of these contracts, we sampled one high-dollar project. We interviewed regional contracting officers, project officers, work assignment

managers, and task order managers from Regions 1, 4, 5, 8, and 9 to determine whether and how they use the results of FMRs. We also reviewed the OAM intranet document titled *Lessons Learned from the FMR Program dated June 2004*, and interviewed the FMR team leader to obtain an understanding of the FMR program.

### ***Internal Control Structure***

In planning and performing our audit, we reviewed management controls related to our objectives. We reviewed documents EPA completed in compliance with the Federal Managers' Financial Integrity Act, including FY 2009 assurance letters from the Office of Administration and Resources Management and Office of Solid Waste and Emergency Response. EPA did not identify internal control weaknesses related to the audit's objectives. There were no previous audits of EPA's implementation of the contracts stewardship plan.



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## Chapter 2

### Successful Implementation of Monitoring Functions

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EPA is implementing the monitoring functions established in the contracts functional area of the EPA Recovery Act Stewardship Plan. EPA developed a plan based mostly on existing controls contained in its *Contracts Management Manual*. These functions are standard internal controls designed to achieve efficiency and effectiveness of operations. EPA's implementation of the selected monitoring functions identified in the contracts functional area of the stewardship plan should help ensure that a high degree of accountability is associated with the investment of Recovery Act funds.

#### Recovery Act Encourages Strong Internal Controls

The contracts functional area of EPA's Recovery Act Stewardship Plan is based largely on GAO's *Internal Control Standards*, OMB's *Recovery Act Implementation Guidance*, and controls contained in EPA's *Contracts Management Manual*. EPA's stewardship plan incorporates the five GAO internal control standards: control environment, risk assessment, control activities, information and communication, and monitoring. OMB's *Recovery Act Implementation Guidance* required appropriate oversight of contracts and encouraged that special attention be given to maintaining strong internal controls over Recovery Act program funds. For contracts, EPA developed a plan based mostly on existing controls contained in its *Contracts Management Manual*. The plan allows for the monitoring of new and existing controls, and provides for contingency controls should monitoring indicate that further oversight is necessary.

#### Monitoring Functions Being Implemented

EPA is implementing the monitoring functions established in the contracts functional area of the EPA Recovery Act Stewardship Plan. We selected six monitoring functions related to cost controls to review during the audit. In December 2009, we surveyed nine regions and four contracting offices, and visited Region 5 to review the implementation of the six monitoring functions. Based on our work, we found that EPA is implementing the selected monitoring functions (table 1).

**Table 1: Results of survey**

<b>Monitoring function</b>	<b>Status of implementation</b>
1. Meetings between contracting officer representatives and contractors	All 13 offices stated that meetings occurred.
2. Review of progress reports	Ten of 13 offices reported that the Chief Acquisition Officer reviewed the monthly progress reports (two offices reported that the progress reports were submitted, but their answers were unclear as to whether the Chief Acquisition Officer reviewed the monthly progress report and one office had not yet received any reports).
3. Financial Monitoring Reviews	EPA planned 21 FMRs in FY 2010 (4 of which are Superfund contracts receiving Recovery Act funding).
4. Meetings with regional contracting officer supervisors	The Recovery Act Contracts Subcommittee met regularly with all OAM regional contracting officers and OAM division directors.
5. Invoice reviews	Two of 13 contracting offices increased the number of invoice reviews. Some of the other offices reported that additional controls have been implemented in addition to the normal invoice review process. For example, one regional office reported that it hired a Financial Specialist to review all Recovery Act invoices.
6. Quality action plan compliance reviews—to ensure that clauses are checked for Recovery Act-funded contracts	This monitoring function generated confusion for contracting offices.

Source: OIG analysis of survey results.

The sixth monitoring function, in Table 1 above, ensuring that EPA’s quality assurance plans (QAPs) were modified to check for the inclusion of Recovery Act contract clauses, generated confusion for EPA’s contracting offices. Some contracting offices interpreted this monitoring function to mean that contracting offices would be required to modify their QAP to include a step to ensure that appropriate Recovery Act clauses were included in those contracts that received Recovery Act funding. Other contracting offices interpreted this step to mean that OAM would include a step in its QAP oversight reviews to ensure that contracting offices included the clauses in required contracts. Agency staff informed us that this monitoring function would be dropped from the stewardship plan. EPA contracting offices would still be required to ensure that Recovery Act clauses were included in all contracts where necessary, although EPA did not provide details on how each office would ensure that the clauses were included in the contracts. During our site visit to Region 5, we verified that the Recovery Act-related clauses were added to impacted contracts. Region 5 used a checklist to ensure that that all required clauses were added to the contracts.

## **Some Monitoring Functions Are Standard Internal Controls**

Most of the controls in the stewardship plan are standard controls EPA uses to administer contracts. As shown in table 2, two controls were added in the stewardship plan. EPA’s implementation of the selected monitoring functions

identified in the contracts functional area of the stewardship plan should help ensure that a high degree of accountability is associated with the investment of Recovery Act funds.

**Table 2: Monitoring functions**

Monitoring function	New or existing control
1. Meetings between contracting officer representatives and contractors	Existing—required by EPA's <i>Contracts Management Manual</i>
2. Review of progress reports	Existing—required by EPA's <i>Contracts Management Manual</i>
3. Financial monitoring reviews	Existing—required by EPA's <i>Contracts Management Manual</i>
4. Meetings with regional contracting officer supervisors	New requirement
5. Invoice reviews	Existing—required by EPA's <i>Contracts Management Manual</i>
6. QAP compliance reviews—to ensure that clauses are checked for ARRA-funded contracts	New requirement

Source: OIG analysis.

## **Chapter 3**

### **EPA Can Improve the Use of Financial Monitoring Reviews**

Program staff are not always aware of the results of the FMRs and, therefore, cannot use the FMRs as a project management tool for Superfund projects funded by the Recovery Act. Program staff were generally unaware of the FMR cost-related internal control issues that would impact their project oversight and invoice review. In accordance with EPA policy, project officers, work assignment managers, and/or task order managers have either primary or secondary responsibility for many of the control features involved with reviewing and approving invoices. EPA FMR report distribution guidance requires that FMR reports be distributed to all contracting officers working on the contract impacted by the FMR, as well as those working on other active contracts with the same contractor. The FMR team views the contracting officers as their primary customers and does not distribute FMR reports directly to program staff. As a result, program staff do not always have the information they need to better manage their projects and perform invoice reviews. Program staff are at risk of approving ineligible invoiced costs because they do not have the knowledge of FMR cost-related issues that impact contract costs being billed.

#### **Program Staff Play Key Role in Invoice Review Process**

While the contracting officer has ultimate responsibility for invoice processing under individual contracts, under the Federal Acquisition Regulation (FAR), he or she may delegate authority to make decisions (FAR 1.102-4) and the accountability for the decisions made. Section 11.2 of EPA's *Contracts Management Manual* establishes the responsibilities, procedures, and instructions for processing contract invoices. Based on the policy, the project officer, work assignment manager, and/or task order manager have either primary or secondary responsibility for many of the control features involved with reviewing an invoice. Table 3 provides some examples of these responsibilities.

**Table 3: Examples from contract invoice process responsibility matrix**

Control feature	Project officer	Contracting officer	Work assignment manager
<b>Monthly invoice reviews:</b>			
<ul style="list-style-type: none"> <li>Ensure billed costs do not exceed cost ceilings established in the contract.</li> </ul>	P	S or P	
<ul style="list-style-type: none"> <li>Ensure funds are available in the correct amounts and distribute payments from the appropriate account.</li> </ul>	P	S	
<ul style="list-style-type: none"> <li>Verify math calculations (see note)</li> </ul>	S	S	
<ul style="list-style-type: none"> <li>Determine whether to disallow invoiced costs.</li> </ul>	P	P	
<ul style="list-style-type: none"> <li>Determine whether to suspend invoiced costs.</li> </ul>	P	S	P
<ul style="list-style-type: none"> <li>Ensure quantities invoiced against delivery schedule and confirm receipt.</li> </ul>	S		P
<ul style="list-style-type: none"> <li>Verify correct usage of rates.</li> </ul>	P	S or P	

Source: EPA Contracts Management Manual.

Note: P= Primary responsible; S= Secondary responsible.

EPA's finance center has primary responsibility for verifying math calculations.

OAM's FMR policy requires FMR reports to be distributed to all contracting officers working on the contract impacted by the FMR, as well as to all contracting officers managing active contracts with the same contractor. The intent of this policy is to keep contracting officers abreast of the contractor's practices and procedures, and to alert contracting officers of systematic problems that may impact their contracts.

## **Program Office Staff Not Always Using FMRs as a Project Management Tool**

For the five work assignments/task orders reviewed, 7 of the 10 program staff (project officers, work assignment managers, and task order managers) did not receive the FMR report, so they were not aware of the FMR findings, as shown in table 4. Therefore, they could not consider the results as part of their project management and invoice review.

**Table 4: FMR report distribution**

Contract	Project officer	Work assignment manager or task order manager
Contract 1	N	N
Contract 2	Y	N
Contract 3	N	N
Contract 4	Y	N
Contract 5	Y	N

Source: OIG analysis.

Note: Y= Received FMR report; N= Did not receive FMR report

All five work assignment managers/task order managers and one project officer interviewed indicated that had they been aware of the FMR findings, those findings would have impacted their project oversight and invoice review process. It is our conclusion that in all five cases, the FMR identified cost-related internal control issues that could impact program staff's project oversight and monthly invoice review and approval. For example, inadequate timekeeping policies and procedures would cause the program staff to review the billed labor hours and rates more closely and place less reliance on the contractor's system. Table 5 summarizes the FMR findings reported.

**Table 5: FMR findings impacting project oversight and invoice review/approval**

FMR completed for contractor	FMR findings impacting project oversight/invoice review
Contractor 1	1. Property purchased for contract use without written approval 2. Inadequate paper timesheets policies/procedures
Contractor 2	1. Missing subcontract agreement for team subcontractor 2. Contractor was using parent company as a subcontractor
Contractor 3	1. Double-billing other direct costs 2. Missing incurred cost submission for prior years 3. Inadequate timekeeping policies/procedures
Contractor 4	1. Contract stipulated percentage of payments not withheld from contract 2. Omission of payment for overtime premium clause required by FAR 3. Inadequate timekeeping policies/procedures 4. Inadequate travel policies/procedures 5. Vouchers not prepared in accordance with contract clause
Contractor 5	1. Excess funds requiring de-obligation

Source: OIG analysis of FMR findings.

## **EPA Management Considers Contracting Officers Primary Customers of FMRs**

The FMR team leader stated that the primary customer of the FMR group is the contracting officer. He does not consider the program staff to be primary customers of the FMR reports. Contracting officers are relied upon to further distribute the reports to others who may be interested in the results. OAM management's view is reflected in the FMR distribution policy, which does not require distribution of the FMR reports to the project officer, work assignment manager, or task order manager. However, EPA has delegated much of the invoice review process to these individuals. Those responsible for reviewing the invoices should receive the FMR reports so that they are aware of issues that could impact their invoice review.

### **Conclusion**

Because the FMRs are not required to be distributed to the program staff, the project officers, work assignment managers, and task order managers do not always have the information needed to better manage their projects and to perform adequate invoice reviews. Without knowledge of inadequate timekeeping procedures, double billings, or other factors that impact labor and other costs being billed, the program staff are at risk of approving ineligible costs.

### **Recommendation**

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

- 3-1 Revise policies and procedures to ensure that FMR reports are distributed timely to all project officers, work assignments managers, and task order managers assigned to the contract impacted by the FMR as well as those working on other active contracts with the same contractor.

### **Corrective Action Taken**

In response to the draft report, EPA agreed with our recommendation and said it will update its internal Financial Analysis and Oversight Standard Operating Procedures to require that FMR reports be distributed to cognizant contracting officers and project officers. The contracting officers and project officers will be advised to further disseminate the report(s) to all parties associated with the contract, including delivery order project officers, task order project officers, and work assignment managers. The Agency implemented the corrective action on October 22, 2010.

## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
3-1	10	Revise policies and procedures to ensure that FMR reports are distributed timely to all project officers, work assignment managers, and task order managers assigned to the contract impacted by the FMR as well as those working on other active contracts with the same contractor.	C	Assistant Administrator for Administration and Resources Management	10/22/10		

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress



## ***Agency Response to Discussion Draft Report***

October 27, 2010

### **MEMORANDUM**

**SUBJECT:** Request to Issue a Final Report in Lieu of a Draft - Response to Discussion Draft Report Entitled, “*EPA Can Improve the Use of Financial Monitoring Reviews*”, (FMR) Project No. OA-FY10-0039, Issued September 8, 2010

**FROM:** Craig E. Hooks /s/ Howard F. Corcoran for  
Assistant Administrator

**TO:** Melissa Heist  
Assistant Inspector General for Audit  
Office of the Inspector General (OIG)

In responding to the discussion draft report, the Office of Administration and Resources Management (OARM) provided the following response which included a corrective action plan for addressing the recommendation. Because we both agree with the recommendation and response, a draft report is not required. We request that the final report be issued instead. We look forward to receiving the final report.

OARM agrees that ensuring effective communication between Contracting Officers (COs) and Contracting Officer Technical Representatives (COTRs), including sharing of information and understanding of roles and responsibilities, is an organizational area of focus and priority. Accordingly, several of the Office of Acquisition Management’s initiatives for FY 2011 involve bringing greater discipline and management to the Agency’s COTR program. Regarding Recommendation 3-1, OARM submits the following:

**Recommendation 3-1:** Revise policies and procedures to ensure that FMR reports are distributed timely to all project officers, work assignments managers, and task order managers assigned to the contract impacted by the FMR and other active contracts with the same contractor

**Response:** OARM will modify its internal Financial Analysis and Oversight Standard Operating Procedures to require that FMR reports be distributed to cognizant COs and Project Officers (POs). As stated in the invoice processing guidance in Contracts Management Manual (CMM), Chapter 11.2, the PO is responsible for coordinating invoice review/approval among subordinate program personnel. Accordingly, FMR distribution will be via e-mail, and will advise COs and POs to further disseminate the report(s) to all parties associated with the contract, including

Delivery Order Project Officers , Task Order Project Officers , and Work Assignment Managers.  
The procedures will be updated no later than October 31, 2010.

If you have any questions, please contact John Bashista at 202-564-4310.

## ***Distribution***

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