



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

AUG 31 2018

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Final Report No. 18-P-0231, "Without E-Invoicing and Stronger Payment Process Controls, EPA is Placing \$1.2 Billion at Risk Annually" dated August 16, 2018

FROM: Holly W. Greaves, Chief Financial Officer
Office of the Chief Financial Officer

Donna J. Vizian, Principal Deputy Assistant Administrator
Office of Administration and Resources Management

TO: Arthur A. Elkins Jr., Inspector General
Office of the Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject final audit report. The following is a summary of the agency's overall position along with its position on each of the report recommendations. For those report recommendations 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 a corrective action or estimated completion date. For those report recommendations which the agency does not agree, we have explained our position and proposed alternatives to recommendations.

AGENCY'S OVERALL POSITION

The agency agrees with the recommendations and believes that all the recommendations have been addressed and the audit can be closed as of the date of the report.

In addition, the following statement on page 6 of the OIG's final report is inaccurate: "As of March 2018, the EPA had not transitioned to or established a plan to implement e-invoicing." The OCFO, in collaboration with the OARM, has been in the process of implementing e-invoicing since the Office of Management and Budget's Memorandum M-15-19 was issued and formally captured the effort on OCFO's project roadmap in April 2017.

AGENCY'S RESPONSE TO AUDIT RECOMMENDATIONS

No.	Recommendation	Assigned to:	High-Level Intended Corrective Actions	Estimated Completion by Quarter and FY
1	Develop a plan with milestone dates to	OCFO	The OCFO developed a plan with milestone dates.	Completed June 12, 2018

No.	Recommendation	Assigned to:	High-Level Intended Corrective Actions	Estimated Completion by Quarter and FY
	implement an electronic invoicing system to meet the Office of Management and Budget fiscal year 2018 requirement.			
2	Develop and implement measurable controls in coordination with the Office of the Chief Financial Officer for each office's role in processing contract invoices and contract modifications to address administrative and processing errors.	OARM	The OARM's Office of Acquisition Management concurs with the recommendation to collaborate with the OCFO to improve accuracy and reduce the number of late payments. A closer examination and analysis of the number and nature of errors for a time period, to identify the type, prevalence, and potential commonality of their systemic root causes (i.e., other than random human error) could pinpoint where specific actions should be taken for process improvement given the respective roles of our two offices. Within the next 60 days from this response, the OARM will coordinate with the OCFO representatives to explore a joint approach to developing and implementing measurable controls towards error reduction. Based on the results of analysis, each office will then establish new or reinforce existing control mechanisms.	October 30, 2018
3	Develop and implement measurable controls that address internal processing delays identified by the agency	OCFO	The OCFO's Research Triangle Park Finance Center, within the Office of the Controller, concurs with recommendation to increase	October 30, 2018

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	as reasons why prompt discounts were not taken.	OARM	<p>attention toward invoices with discounts. The OCFO's RTP-FC will update standard operating procedures and provide training to assigned staff.</p> <p>The OARM's OAM will issue a flash notice to acquisition personnel to communicate, reiterate, and emphasize their responsibility under several Federal Acquisition Regulation sections associated with <u>discounts</u>. These FAR sections include the following:</p> <p>FAR 32.111 -- Contract Clauses for <u>Non-Commercial Purchases</u>, which requires inclusion of the FAR clause at 52.232-8, Discounts for Prompt Payment, in solicitations and contracts when a fixed-price supply contract or fixed-price service contract is contemplated. The FAR 52.232-8 Discounts for Prompt Payment (FEB 2002) paragraph (a) states:</p> <p><i>(a) Discounts for prompt payment will not be considered in the evaluation of offers. However, any offered discount will form a part of the award, and will be taken if payment is made within the discount period indicated in the offer by the offeror. As an</i></p>	October 26, 2018

No.	Recommendation	Assigned to:	High-Level Intended Corrective Actions	Estimated Completion by Quarter and FY
			<p><i>alternative to offering a discount for prompt payment in conjunction with the offer, offerors awarded contracts may include discounts for prompt payment on individual invoices.</i></p> <p>FAR 12.301 -- Solicitation Provisions and Contract Clauses for the Acquisition of <u>Commercial Items</u>, which require inclusion of the FAR 52.212-1 -- Instructions to Offerors -- Commercial Items. This FAR provision instructs offerors to include in their submission of offers price and <u>any discount terms</u>.</p> <p>FAR 13.101 – General, paragraph (b)(3) that in making purchases, contracting officers should make <u>maximum effort to obtain</u> trade and prompt payment discounts (see 14.408-3). Although the FAR Subsection 14.408-3 states that payment discounts shall <u>not</u> be considered in the evaluation of quotations, this FAR subsection does state that any discount offered will form a part of the award, and will be taken by the payment center if payment is made within the discount period specified by the bidder. Furthermore, as an alternative to indicating a</p>	

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			<p>discount in conjunction with the offer, bidders may prefer to offer discounts on individual invoices.</p> <p>To facilitate knowledge and learning in this area, the OAM flash notice will further direct the acquisition staff to the U.S. Department of the Treasury, Bureau of the Fiscal Service website for various critical information specific to prompt payment and discounts, particularly, the requirement that vendor offered discounts must be <u>economically justified</u>.</p> <p>Under the Prompt Payment final rule (5 Code of Federal Regulations Part 1315), Section 1315.7 Discounts, agencies may take an offered discount <u>if it is economically justified</u> and if the agency has accepted the good or services. The final rule also specifically requires the use of a calculation formula which factor in the discount the vendor is offering, total days in the payment period, days left in the discount period, and most importantly, the <u>current value of funds rate</u>.</p> <p>The Treasury Financial Manual Chapter 2000, Overall Disbursing Rules for All Federal Agencies, Section 2060--Prompt Payments to Earn Discounts</p>	

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			<p>also provides guidance to federal agencies that when a cash discount has been offered for prompt payment, agencies should make every effort to process the invoice within the discount period, if the discount is cost effective to the government.</p> <p>The OAM will include in the flash notice current internet web links for the U.S. Department of the Treasury's Bureau of the Fiscal Service website for discount information, discount calculator, Treasury Current Value of Funds Rate, and Treasury Financial Manual, Chapter 2000, Overall Disbursing Rules for All Federal Agencies, Section 2060—Prompt Payments to Earn Discounts.</p>	
4	<p>Develop and implement measurable controls that provide staff with guidance on taking prompt payment discounts before the discount period ends and that notify approving officials of expiring discount periods, so that prompt payment discounts can be taken when economically justified in compliance with the Prompt Payment Act and Office of Management and Budget</p>	OCFO	<p>The OCFO's RTP-FC concurs with the recommendation to conduct specific training on discount invoice processing which will include methods for providing expedited notice to Approving Officials. In addition, business process maps and standard operating procedures, that include measurable controls, will be updated to provide staff with additional guidance on invoice discounts.</p>	October 30, 2018

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	regulations at 5 CFR Part 1315.			
5	Verify contracting officers are performing oversight responsibilities per the agreed-upon corrective actions from prior OIG reports, and implement agencywide measurable controls to address nonperformance of contractor officer invoice process oversight responsibilities in accordance with Federal Acquisition Regulation Subpart 1.6 EPA Acquisition Guide Subsection 32.9.1, and the EPA's Performance Appraisal and Recognition System, as applicable.	OARM	<p>The OARM's OAM concurs with the recommendation and it will re-emphasize the critical importance of performing contract management responsibilities in accordance with applicable laws, FAR, and agency regulations and policies, and as included in the Performance Appraisal and Recognition System Performance Plan of all 1102s. This will be accomplished through the release of a memorandum to the OAM's Division Directors and Regional Acquisition Managers addressing key contract management oversight activities which include COs conducting invoice reviews, and monitoring the effectiveness of contracting officer representatives in performing assigned functions such as the review and approval of invoices. The memorandum also will emphasize the need to highlight contract management oversight activities during performance standards discussions for the upcoming fiscal year.</p> <p>In addition, the OAM will enhance EPAAG Subsection 1.1.1, Performance Measurement and Management Program,</p>	<p>October 1, 2018</p> <p>December 31, 2018</p>

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			<p>to require that all acquisition offices ensure the inclusion in their internal assessment plan a specific requirement to verify compliance with EPAAG Subsection 32.9.1- Invoice Review. The OAM will require that its COs effectively execute invoice review responsibilities as outlined in this EPAAG subsection and document in the official contract file via a memorandum for the record the contract and invoice numbers of invoices reviewed, and the dates of such reviews. Also of particular importance is the requirement that COs perform periodic monitoring of a COR/ Invoice/Voucher Approving Official's invoice review activities. Contract files shall also include documentation of meeting(s) with CORs, identifying dates of review with each contract level COR of his/her performance of COR responsibilities, specifically invoice review activities. Finally, the OAM will develop a training session to provide to COs instructions on how to conduct an invoice review. The OAM's Cincinnati Procurement Operations Division is already working on a training session, and will provide training</p>	

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			materials to the OAM University when completed.	

CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Bob Trent, at (202) 566-0983.

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