



# Office of Inspector General

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## Strategic Planning Document

### FINANCIAL CONTRACT AUDITS

Contracts 2000 Strategy  
Fiscal Years 1999-2003



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## EPA Office of Inspector General Contracts 2000 Strategy

### Background

Historically, the Environmental Protection Agency's Office of Inspector General (EPA OIG) has focused its financial contract audit resources on large-dollar, Superfund contractors. More recently, we have broadened our focus to include smaller and non-Superfund contractors. We have: assisted EPA's and other Federal agencies' procurement functions in the award, administration and close-out of contracts; provided assistance to the OIG's Office of Investigations (OI); and performed audits of contracts to prevent and detect fraud, waste and abuse. Additionally, in Fiscal Year (FY) 1997 we centralized our oversight of and coordination with the Defense Contract Audit Agency (DCAA).

In early FY 1998, the Office of Audit formed the Contracts 2000 Work Group, which included each Division's financial contract audit manager(s) and External Audit Staff members. The Work Group assessed where we have been in our contract audit program during the last several years and what had provided the most value. Members interviewed OIG executives and managers, and important customers and stakeholders, and then developed this strategy.

### Contract Audit Program Goals

The Office of Audit has three goals for its contract audit program.

- Support EPA's and other Federal agencies' procurement functions with needed audits and advisory services to assist in the award, administration and close-out of contracts.
- Provide OI with needed contract audit, consulting and accounting services to support their civil and criminal investigations.
- Prevent and detect instances of contract fraud, waste, and abuse.

EPA has recently issued a new strategic plan in accordance with the Government Performance and Results Act. The OIG also has such a strategic plan, which includes its vision and mission. The contract audit program's goals are clearly related to and supportive of these documents.

- EPA's strategic plan's goal 10, *Effective Management*, seeks to "establish a management infrastructure that will set and implement the highest quality standards for

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effective internal management and fiscal responsibility." Our contract audit program supports this goal by focusing on accountability for contract dollars.

- The OIG's strategic plan highlights its vision and mission, as follows.

*Vision -- We are agents of positive change striving for continuous improvement in our Agency's management and program operations, and in our own offices.*

**Mission --** Our mission is defined in the Inspector General Act of 1978 (Public Law 95-452), as amended. The Act requires the Inspector General to: (1) conduct and supervise audits and investigations relating to programs and operations in the Agency; (2) provide leadership and make recommendations designed to (i) promote economy, efficiency, and effectiveness and (ii) prevent and detect fraud and abuse in Agency programs and operations; and (3) fully inform the Agency Head and the Congress about problems and deficiencies identified by the OIG relating to the administration of Agency programs and operations.

Our goals support the vision by focusing on improvements in the Agency's management of its contracts and contractors, through which and whom EPA accomplishes parts of its mission. Our goals also support the IG mission by providing for audits relating to EPA's contracting operations and by preventing and detecting fraud and abuse in EPA's contracting activities.

### **Contract Audit Program Strategy**

The Office of Audit has identified the following primary customers for the contract audit program:

- EPA and other Federal procurement officials;
- OIG investigators;
- Agency program officials; and
- Office of Audit performance auditors.

This contract audit strategy takes all of these customers into account, and provides specific products and / or services for each of them. The principal focus is on two of our customers: EPA and other Federal procurement officials, and OIG investigators.

The strategy includes seven work functions, the mix of which changes over time. The individual functions are outlined in the next section. In the short term (FY 1999 - 2000), the strategy maintains its primary emphasis on cognizance at selected EPA contractors of importance to the Agency. The strategy retains cognizance at the current set of contractors, providing that EPA retains the preponderance of their auditable dollar value, while adding new ones as appropriate. At the same time, the strategy builds up some of the existing functions and introduces new ones. Beginning in FY 2001, the strategy highlights both cognizance and OI support. The other functions grow in the application of resources, which is largely offset by slight decreases in the workload at cognizant contractors. Details are shown year-by-year later in this document.

Table 1. shows the seven functions and links them to our three goals and four customers.

Table 1. Goals Supported and Customers Served by the Contract Audit Functions

<b>Function</b>	<b>Primary Goal Supported</b>	<b>Customer(s) Served</b>
A: Audit cognizance at selected contractors	Support EPA's and other Federal agencies' procurement functions	✓ EPA and other Federal procurement officials
B: Support for Office of Investigations	Provide OI with needed contract audit, consulting and accounting services	✓ OIG investigators
C: Oversight of the DCAA contract audit program for EPA contracts	Support EPA's procurement functions	✓ EPA procurement officials
D: "Advisory and Assistance Services" for EPA and other Federal agency procurement officials	Support EPA's and other Federal agencies' procurement functions	✓ EPA and other Federal procurement officials ✓ Agency program officials
E: Special request audits	Support EPA's and other Federal agencies' procurement functions	✓ Agency program officials ✓ EPA and other Federal procurement officials

Function	Primary Goal Supported	Customer(s) Served
F: Special self-initiated audits	Prevent and detect instances of contract fraud, waste, and abuse	✓ EPA procurement officials
G: Support for OIG evaluation of EPA environmental work done through contracts	Prevent and detect instances of contract fraud, waste, and abuse	✓ Office of Audit performance auditors ✓ Agency program officials

### Financial Contract Audit Functions

**Function A: Audit cognizance at selected contractors.** Primary goal supported: Support EPA's and other Federal agencies' procurement functions. Customers served: EPA and other Federal procurement officials. Function description: Perform the full range of contract audit services required at cognizant contractor locations, including forward pricing reviews; incurred cost audits; system reviews; Cost Accounting Standards audits; joint Financial Monitoring Reviews (FMRs) with EPA's Office of Acquisition Management (OAM), if requested; etc.

**Function B: Support for Office of Investigations.** Primary goal supported: Provide OI with needed contract audit, consulting and accounting services. Customer served: OIG investigators. Function description: Provide well-trained contract audit professionals that will contribute their audit and accounting skills in support of procurement-related investigations. This can be for both proactive and reactive investigative initiatives.

**Function C: Oversight of the DCAA contract audit program for EPA contracts.** Primary goal supported: Support EPA's procurement functions. Customers served: EPA procurement officials. Function description: These services include processing Agency requests for DCAA audits, reviewing and analyzing DCAA audit reports, processing DCAA billings for audit work performed, resolving issues of concern with DCAA, etc. The centralized DCAA monitoring team in the Washington Contracts Division (WCD) performs these functions; however, other divisions may still occasionally perform some ad hoc liaison activities with DCAA.

**Function D: "Advisory and Assistance Services" for EPA and other Federal agency procurement officials.** Primary goal supported: Support EPA's and other Federal agencies' procurement functions. Customers served: EPA and other Federal procurement

officials, and Agency program officials. Function description: These services are typically very short efforts to respond to OAM or other Federal officials' questions or requests beyond ongoing audits, in whatever form and time frame desired. This service will not result in an "audit report."

**Function E: Special Request Audits.** Primary goal supported: Support EPA's and other Federal agencies' procurement functions. Customers served: Agency program officials, and EPA and other Federal procurement officials. Function description: These audits respond to specific requests for specialized contract audit and related services at non-cognizant contractor locations. They may be requested from a program office, OAM Headquarters, Regional contracting officials, or project officers. Special Request Audits include: Superfund response claims; unique, EPA-specific contractor claims; FMRs; audits of subcontractors with no on-site DCAA presence; audits of EPA grant funds commingled with EPA contract dollars; etc. This service will result in a formal Office of Audit product, such as an audit or special review (e.g., agreed-upon-procedures) report.

**Function F: Special Self-initiated Audits.** Primary goal supported: Prevent and detect instances of contract fraud, waste, and abuse. Customers served: EPA procurement officials. Function description: Perform self-initiated audits of specific areas of concern or contracts with indicators of vulnerabilities, after consultation with OAM Headquarters or Regional Contracting Officers. For example, target known or suspected problems identified in performance audits or FMRs; ascertain the extent to which EPA is vulnerable to a particular common weakness (e.g., service center costs, business meals, program management costs); identify and audit potentially defectively priced contracts; etc.

**Function G: Support for OIG evaluation of EPA environmental work done through contracts.** Primary goal supported: Prevent and detect instances of contract fraud, waste, and abuse. Customer served: Office of Audit performance auditors, and Agency program officials. Function description: This function is designed to combine OIG-wide expertise to address the underlying question of the Government Performance and Results Act: "What is the Agency getting for the money spent (in this case, on a particular contract)?" The focus would be on specific contracts that the Agency is using to attain some environmental result, such as the cleanup contracts at Fund-lead Superfund sites.

## Resources Required

The following tables show the resources needed to implement the strategy. Table 2. shows a five-year horizon, for long-range Office of Audit-wide planning purposes. Tables 3. and 4. focus on FY 1999, and show resources by division. Table 3. reflects the staffing the

Work Group believes is necessary to accomplish the plan. Table 4. reflects the current staffing level being applied to the contract audit program. There is a difference of 4.5 FTEs between Tables 3. and 4. While these tables reflect the resources needed to accomplish the plan, actual resource levels and allocations will be decided upon year-by-year during the budgeting and planning processes.

Table 2. Five-year Plan - Resources Necessary  
To Accomplish the Plan, by Year

Function	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
A: Cognizance	21.5	18	16	15	15
B: OI Support	10	11	13	15	15
C: DCAA Monitoring	3	3	3	3	3
D: Advisory & Assistance	1.25	1.75	1.75	1.75	1.75
E: Special Request Audits	1	1.5	2.5	3.5	3.5
F: Self-initiated Audits	2	3	3	3	3
G: Evaluation of Environmental Work Done Through Contracts	2	2.5	2.5	2.5	2.5
Management & Support <sup>1</sup>	3.25	3.25	3.25	3.25	3.25
Total	44	44	45	47	47

<sup>1</sup> Management and Support represents two FTEs assigned to WCD for the DIGA and secretary, and Headquarters staff devoted to the contract audit program.



Table 3. FY 1999 – Resources Necessary  
To Accomplish the Plan, by Division

Function	EAD	NAD	WAD	SAD	WCD	HQ	Totals
A: Cognizance	8	3.5			10		21.5
B: OI Support	.5	1.5	2	1	5		10
C: DCAA Monitoring					3		3
D: Advisory & Assistance	.5	.5	.25				1.25
E: Special Request Audits		.5			.5		1
F: Self-initiated Audits					2		2
G: Evaluation of Environmental Work Done Through Contracts	1				1		2
Management & Support					2	1.25	3.25
Total	10	6	2.25	1	23.5	1.25	44

Table 4. FY 1999 - Resources Based on  
Current Staffing Levels, by Division

Function	EAD	NAD	WAD	SAD	WCD	HQ	Totals
A: Cognizance	8	3			9		20
B: OI Support	.5	1.5	2	1	5		10
C: DCAA Monitoring					3		3
D: Advisory & Assistance	.5	.5	.25				1.25
E: Special Request Audits					.5		.5
F: Self-initiated Audits					.5		.5
G: Evaluation of Environmental Work Done Through Contracts	1						1
Management & Support					2	1.25	3.25
Total	10	5	2.25	1	20	1.25	39.5

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