



U.S. ENVIRONMENTAL PROTECTION AGENCY

**OFFICE OF INSPECTOR GENERAL**

# **EPA Is Not Recovering All Its Costs of the Lead-Based Paint Fees Program**

Report No. 13-P-0163

February 20, 2013



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## Report Contributors:

Paul Curtis  
Arthur Budelier  
Sheree James  
Guillermo Mejia

## Abbreviations

CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CG&E	Contracts, Grants, and Expenses
EPA	U.S. Environmental Protection Agency
FY	Fiscal year
GAO	U.S. Government Accountability Office
IFMS	Integrated Financial Management System
IOAA	Independent Offices Appropriation Act
OCFO	Office of the Chief Financial Officer
OCSP	Office of Chemical Safety and Pollution Prevention
OECA	Office of Enforcement and Compliance Assurance
OFS	Office of Financial Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPPT	Office of Pollution Prevention and Toxics
RRP	Renovation, Repair, and Painting
SFFAS	Statement of Federal Financial Accounting Standards
TSCA	Toxic Substances Control Act

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# At a Glance

## Why We Did This Review

We performed this review to evaluate the U.S. Environmental Protection Agency's (EPA's) assessment and collection of accreditation and certification fees for its lead-based paint program. Our objectives were to determine whether EPA is recovering its costs of administering the lead-based paint program, and whether EPA has effective internal controls over the assessment and collection of fees.

The Toxic Substances Control Act (TSCA) directs EPA to address the general public's risk of exposure to lead-based paint hazards. EPA's Office of Pollution Prevention and Toxics (OPPT) administers the national training and certification systems for lead abatement and renovation activities. TSCA authorizes EPA to establish fees to recover the costs of administering and enforcing the standards and requirements applicable to lead-based paint training programs and contractors.

### 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/2013/20130220-13-P-0163.pdf](http://www.epa.gov/oig/reports/2013/20130220-13-P-0163.pdf)

## ***EPA Is Not Recovering All Its Costs of the Lead-Based Paint Fees Program***

### What We Found

EPA is not recovering all its costs of administering the lead-based paint program. Our analysis, based on the Agency's rough cost estimates, showed unrecovered costs of \$16.4 million for fiscal years (FY) 2010 through 2014 combined. Although collections exceeded costs by \$8.9 million in FY 2010, for FYs 2011 through 2014 costs exceeded collections by \$25.3 million, thus the net difference of \$16.4 million. In a 2009 final rule, EPA established a fee schedule under the authority of TSCA to recover the program costs incurred over a 5-year certification cycle. However, EPA is not recovering all its costs because:

- Renovation, Repair, and Painting firm participation is lower than projected.
- EPA has not conducted a biennial cost review to determine its actual costs and decide whether it needs to adjust fees to reflect changes in costs.
- The fees structure does not take into account all indirect costs needed to recover the full cost of administering the lead-based paint program.

By not recovering all of its program costs, the federal government did not collect funds that otherwise could have been available to offset the federal budget deficit. A fees rule update could result in additional revenue of up to \$16.4 million per 5-year cycle.

EPA's internal controls over the assessment and collection of fees are generally effective.

### Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for Chemical Safety and Pollution Prevention update the March 2009 fees rule to reflect the amount of fees necessary to recover the program costs, and apply indirect cost rates to all applicable direct costs to obtain the full cost of the program (the Chief Financial Officer has agreed to develop the indirect cost rates). We also recommend that the Chief Financial Officer conduct biennial cost reviews of the lead-based paint fee collections and the full cost of operating the program to determine whether EPA is recovering its costs, and determine the appropriate Agency indirect cost rates to be used for EPA's user fee programs.

EPA agreed with all our recommendations. EPA said it will update the 2009 fees rule, modify cost analysis procedures as appropriate, conduct biennial cost reviews, and develop appropriate indirect cost rates for user fee programs. The two recommendations to the Assistant Administrator for Chemical Safety and Pollution Prevention are unresolved pending receipt of estimated completion dates.





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

THE INSPECTOR GENERAL

February 20, 2013

**MEMORANDUM**

**SUBJECT:** EPA Is Not Recovering All Its Costs of the Lead-Based Paint Fees Program  
Report No. 13-P-0163

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

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is placed to the right of the "FROM:" line.

**TO:** Jim Jones  
Acting Assistant Administrator for Chemical Safety and Pollution Prevention

Barbara J. Bennett  
Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 60 calendar days. You should include a corrective actions plan for agreed-upon actions, including milestone dates. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal. We have no objections to the further release of this report to the public. We will post this report to our website at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899 or [heist.melissa@epa.gov](mailto:heist.melissa@epa.gov); or Paul Curtis, Product Line Director for Financial Statement Audits, at (202) 566-2523 or [curtis.paul@epa.gov](mailto:curtis.paul@epa.gov).

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# Chapter 1

## Introduction

### Purpose

We performed this review to evaluate the U.S. Environmental Protection Agency's (EPA's) assessment and collection of accreditation and certification fees for its lead-based paint program. With the Administration's current focus on reducing the federal budget deficit, we wanted to determine whether EPA was charging sufficient fees to recover its costs. The objectives of our review were to determine whether EPA:

- Is recovering its cost of administering and enforcing the standards and requirements applicable to lead-based paint training programs and contractors.
- Has effective internal controls over the assessment and collection of lead fees.

### Background

Title IV of the Toxic Substances Control Act (TSCA) directs EPA to regulate the training and certification of lead-based paint activities. These activities include the Lead-Based Paint Activities Program (Abatement) and the Renovation, Repair, and Painting (RRP) program. The Abatement program, which became effective in March 2000, requires all lead-based paint activities to be conducted according to work practice standards. The RRP program, which became fully effective in April 2010, requires RRP activities that disturb lead-based paint to be conducted using lead-safe work practices. The Abatement and RRP programs both require training providers to be accredited and individuals and firms conducting lead-based paint activities or renovations in target housing and child-occupied facilities to be trained and certified.

EPA's Office of Pollution Prevention and Toxics (OPPT), within the Office of Chemical Safety and Pollution Prevention (OCSP), administers the national training and certification systems for lead abatement and renovation activities. OPPT also performs outreach activities to increase contractor awareness of the RRP program requirements and consumer awareness of the hazards of lead paint. EPA's Office of Enforcement and Compliance Assurance (OECA) enforces the lead-based paint program under TSCA.

The Abatement and RRP programs allow states, tribes, and territories to become authorized to administer and enforce the program in place of EPA. Currently, EPA has authorized 39 states, the District of Columbia, Puerto Rico, and 3 tribes

for the Abatement program, and 12 states for the RRP program. EPA administers the Abatement program in 11 non-authorized states and the RRP program in 38 non-authorized states, the District of Columbia, and all territories and tribes. EPA charges fees in the non-authorized states, territories, and tribes for training programs seeking accreditation, renovation firms seeking certification, and individuals or firms engaged in lead-based paint activities seeking certification. EPA does not charge fees in authorized states.

### ***Statutory Authorities and Guidance***

EPA collects fees for the lead-based paint programs under the authority of the following statutes:

- The Independent Offices Appropriation Act (IOAA) of 1952 authorizes federal agencies to charge fees for the services they provide. The IOAA requires that each charge be fair and be based on the costs to the government, the value of the service to the recipient, the public policy or interest served, and other relevant facts. The IOAA states that each service provided by a federal agency should be self-sustaining to the extent possible.
- TSCA Section 402 (15 U.S. Code § 2682) authorizes EPA to collect accreditation and certification fees to cover the costs of administering and enforcing the lead-based paint activities training and certification program.
- The Chief Financial Officers Act of 1990 (CFO Act) requires the Chief Financial Officer (CFO) to review, on a biennial basis, the fees imposed by the Agency for services and things of value it provides. The CFO shall make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.

The following federal policies and standards provide guidance for implementing EPA's lead fee user charges:

- Office of Management and Budget (OMB) Circular A-25, *User Charges*, dated July 8, 1993, implements the IOAA. It provides for charges for government goods and services that convey special benefits to recipients beyond those accruing to the general public. It also establishes that user charges should be set at a level sufficient to recover the full cost of providing the service, resource, or property. It requires the Agency to review the user charges for Agency programs biennially. Biennial reviews will include assurance that existing charges are adjusted to reflect unanticipated changes in costs or market values. Agencies should discuss the results of the biennial review of user fees and any resultant proposals in the CFO's Annual Report required by the CFO Act.

- The Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Standards and Concepts*, dated July 31, 1995, states that full cost should be considered as a primary basis for setting fees for government goods and services. The full cost of an output is the total amount of resources used to produce the output, including direct and indirect costs. Indirect costs are costs that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs. Typical examples of indirect costs include general administrative services; general research and technical support; security; rent; employee health and recreation facilities; and operating and maintenance costs for buildings, equipment, and utilities.

EPA issued the following final rules related to the Abatement and RRP program fees:

- EPA's final rule of June 9, 1999, *Lead; Fees for Accreditation of Training Programs and Certification of Lead-Based Paint Activities Contractors*, establishes fees for the Abatement program. EPA's February 26, 1999, report, *Economic Analysis of the Final TSCA Section 402(a)(3) Lead-Based Paint Accreditation and Certification Fee Rule*, supports the 1999 final rule.
- EPA's final rule of April 22, 2008, *Lead; Renovation, Repair, and Painting Program*, addresses lead-based paint hazards created by renovation, repair, and painting activities that disturb lead-based paint in target housing and child-occupied facilities. The rule establishes RRP requirements for training renovators, other renovation workers, and dust sampling technicians; for certifying renovators, dust sampling technicians, and renovation firms; for accrediting providers of renovation and dust sampling technician training; for renovation work practices; and for recordkeeping. EPA prepared a March 2008 report, *Economic Analysis for the TSCA Lead Renovation, Repair, and Painting Program Final Rule for Target Housing and Child-Occupied Facilities*. The report presents an economic analysis of alternative regulatory options for the final rule. The economic analysis estimated the universe of affected entities for the April 2008 final rule.
- EPA's final rule of March 20, 2009, *Lead; Fees for Accreditation of Training Programs and Certification of Lead-Based Paint Activities and Renovation Contractors*, revised the existing fees for EPA's Abatement regulations and establishes fees for the RRP rule. The rule requires that EPA establish and implement a fee schedule to recover for the U.S. Treasury the Agency's costs of administering and enforcing the standards and requirements applicable to lead-based paint training programs and



contractors. EPA prepared a January 27, 2009, report, *Economic Analysis for the TSCA Section 402 Lead-Based Paint Program Accreditation and Certification Fee Rule*, to support the fees schedule. The economic analysis estimated the costs of the Abatement and RRP programs and the number of accreditation and certification applicants, and developed the fees schedule.

EPA deposits lead fees collected into the Environmental Services Special Fund in the U.S. Treasury. The receipts in the special fund are to remain available for appropriation to carry out the Agency's activities for which the fees were collected. However, Congress has not appropriated the special fund receipts. Congress has been appropriating general funds, without specifying the Environmental Services Special Fund, to the Environmental Program & Management and State and Tribal Assistance Grants appropriations to finance the lead Abatement and RRP programs. The special fund balance grew to \$303 million, including \$43 million from lead fees, at the end of fiscal year (FY) 2011. Although Congress has not appropriated the special fund to finance the environmental programs that generated the receipts, the fund remains available for appropriation and offsets the federal budget deficit.

## **Scope and Methodology**

We conducted this review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives. We conducted our review from December 2011 through July 2012. Appendix A contains details on our scope and methodology.

## **Chapter 2**

### **EPA's Lead-Based Paint Program Is Not Recovering All Its Costs**

EPA is not recovering all its costs of administering the lead-based paint program. Our analysis, based on the Agency's rough cost estimates, showed unrecovered costs of \$16.4 million for FYs 2010 through 2014 combined. Although collections exceeded costs by \$8.9 million in FY 2010, for FYs 2011 through 2014 costs exceeded collections by \$25.3 million, thus the net difference of \$16.4 million. TSCA Section 402 (15 U.S. Code § 2682) authorizes the EPA Administrator to establish fees to cover the costs of administering and enforcing the standards and regulations of the program. In a 2009 final rule, EPA established a fee schedule designed to recover the program costs incurred over a 5-year certification cycle. However, EPA is not recovering all its costs because:

- RRP firm participation is lower than projected.
- EPA has not conducted a biennial cost review to determine its actual costs and decide whether it needs to adjust fees to reflect changes in costs.
- The fees structure does not take into account all applicable indirect costs and therefore does not provide for recovering the full cost of administering the program.

By not recovering all of its costs of the program, the federal government did not collect funds that otherwise could have been available to offset the federal budget deficit. A fees rule update could result in potential additional revenue of up to \$16.4 million per 5-year cycle.

#### **Program Costs Exceed Fee Collections**

Although EPA is collecting the fees authorized in the 2009 final rule, it is not recovering all its costs of administering the program. EPA's economic analysis for the 2009 rule formed the basis for the fee structure in the final rule. The economic analysis supports the fees development for the Abatement and RRP programs. The economic analysis projected the program activity and costs for a 5-year cycle to correspond with the RRP program requirement for renovation firms to re-certify every 5 years. Because the RRP program was new, EPA estimated the number of RRP applications from firms and training providers to be much greater in the first year than in the 4 subsequent years of the 5-year cycle. EPA designed its fee structure to recover the anticipated program costs at the estimated activity levels for the 5-year cycle. Table 1 illustrates the economic analysis 5-year cost estimates for the Abatement and RRP programs.

**Table 1: Summary of estimated Abatement and RRP costs (\$ in millions)**

	Year 1 FY 2010	Year 2 FY 2011	Year 3 FY 2012	Year 4 FY 2013	Year 5 FY 2014	Total
Abatement	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2	\$6.0
RRP	61.5	22.2	22.1	22.0	21.9	149.7
<b>Total</b>	<b>\$62.7</b>	<b>\$23.4</b>	<b>\$23.3</b>	<b>\$23.2</b>	<b>\$23.1</b>	<b>\$155.7</b>

Source: EPA's *Economic Analysis for the TSCA Section 402 Lead-Based Paint Program Accreditation and Certification Fee Rule*, dated January 27, 2009, Executive Summary, tables ES-4 and ES-8.

EPA had not conducted a formal cost study to determine its actual program costs. At our request, OPPT, with assistance from OECA, developed a rough estimate of its actual costs for FYs 2010 and 2011 based on spending and labor use. OPPT stated that the estimated amounts were tentative because EPA prepared them quickly without performing a thorough cost analysis. Although tentative, the rough estimate was the most useful program cost information available at the time to help determine whether EPA is recovering its program costs. EPA's cost estimate, including Office of Inspector General (OIG) calculations for indirect costs, was \$19.2 million for FY 2010 and \$20.3 million for FY 2011. Appendix B contains details of the cost estimate. EPA's lead fee collections recorded in the Integrated Financial Management System (IFMS), the Agency's accounting system, totaled \$22.0 million for FY 2010 and \$9.1 million for FY 2011. Therefore, EPA's initial rough cost estimate indicated that EPA did not recover \$8.5 million of its costs for the 2 years combined, as illustrated in table 2.

**Table 2: Summary of fee collections and estimated program costs (\$ in millions)**

	FY 2010	FY 2011	Total
Fee collections	\$22.0	\$9.1	\$31.1
Estimated costs	19.2	20.3	39.6
<b>Excess fees / (unrecovered costs)</b>	<b>\$2.8</b>	<b>\$(11.2)</b>	<b>\$(8.5)</b>

Source: OIG analysis of EPA data. (The numbers in the table may not add up due to rounding.)

EPA's January 2009 economic analysis projected the level of Abatement and RRP applications and program costs to remain about the same for the final 4 years of the 5-year cycle. EPA expects to achieve some future cost reductions through improvements in the program's database and applications processing, and some cost increases in program enforcement. However, EPA did not project the amount of expected future cost reductions. If the fee collections and overall costs experienced in the second year remain at approximately the same levels in the final 3 years of the cycle, the estimated unrecovered costs for the 5-year cycle would be \$42 million, as illustrated in table 3. We present the amounts in table 3 to provide a perspective on the potential magnitude of the unrecovered costs. The amounts are based on estimates and projections, and actual results may vary.

**Table 3: Estimated unrecovered costs for the 5-year cycle (\$ in millions)**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total
Fee collections	\$22.0	\$9.1	\$9.1	\$9.1	\$9.1	\$58.4
Program costs	19.2	20.3	20.3	20.3	20.3	100.4
<b>Total</b>	<b>\$2.8</b>	<b>\$(11.2)</b>	<b>\$(11.2)</b>	<b>\$(11.2)</b>	<b>\$(11.2)</b>	<b>\$(42.0)</b>

Source: OIG analysis of EPA data.

OCSPP was concerned that OIG based its findings on the preliminary data from OPPT's rough cost estimate. According to OCSPP, the preliminary rough cost estimate was not an authoritative and complete statement of program costs. Therefore, OCSPP conducted a second, more refined cost estimate to provide a more accurate picture of the lead program costs. OCSPP presented its revised estimate for the 5-year cycle to OIG on October 3, 2012, as an attachment to EPA's response to OIG's draft report (Appendix C). The revised cost estimate showed unrecovered costs of \$16.4 million for FYs 2010 through 2014 combined, as illustrated in table 4. The fee collections are the actual amounts for FY 2010 and FY 2011. OCSPP derived the 2012 amounts from the Agency's FY 2012 operating plan and 2013 amounts from the President's FY 2013 Budget. OCSPP estimated the 2014 amounts from the FY 2013 figures.

**Table 4: Revised estimated unrecovered costs for the 5-year cycle (\$ in millions)**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Total
Fee collections	\$22.0	\$8.7	\$4.1	\$4.7	\$4.9	\$44.3
Program costs	13.1	14.3	10.9	11.2	11.2	60.6
<b>Total</b>	<b>\$8.9</b>	<b>\$(5.6)</b>	<b>\$(6.8)</b>	<b>\$(6.5)</b>	<b>\$(6.3)</b>	<b>\$(16.4)</b>

Source: OIG analysis of EPA data. (The numbers in the table may not add up due to rounding.)

Although EPA's revised estimate reduced the unrecovered costs for the 5-year cycle from \$42 million to \$16.4 million, our findings did not change. EPA's lead-based paint program is not recovering all its costs. The significant variance in calculated program costs between the two estimates underscores the need for EPA to conduct a biennial cost review to determine its actual costs.

EPA is not recovering all of its costs of administering the lead-based paint program because:

- RRP firm participation is lower than projected.
- EPA has not conducted a biennial cost review to determine its actual costs and decide whether it needs to adjust fees to reflect changes in costs.
- The fees structure does not take into account all applicable indirect costs and therefore does not provide for recovering the full cost of administering the lead-based paint program.

## RRP Firm Participation Is Lower Than Projected

The RRP program applies to renovation activities in target housing and child-occupied facilities. Under the RRP final rule of April 22, 2008, firms that are subject to the regulations need to obtain EPA certification, and training providers must obtain accreditation for their RRP courses. EPA's economic analysis for the 2008 rule estimated the universe of affected entities for the final rule. EPA based the estimate on the number of renovations estimated to occur in rental target housing and child-occupied facilities. EPA's economic analysis estimated the number of renovation firms as well as the number of training providers that would be needed to perform renovation jobs and train the needed workforce in years 1 through 5 of the program.

EPA's economic analysis overestimated the level of firm participation in the program and the number of RRP applications. EPA's 2009 economic analysis estimated the number of RRP applications from firms seeking certification to be approximately 212,000 for the first year, 72,000 for the second through the fourth year, and 71,000 for the fifth year of the 5-year cycle. Since the program became fully effective April 22, 2010, EPA considered the first full year to run through April 2011 and the second year through April 2012. EPA certified approximately 87,000 firms the first full year and 13,000 the second year. The total number of firms certified for the first 2 years of the 5-year cycle was about 35 percent of the estimated total, as illustrated in table 5.

**Table 5: Summary of estimated and actual firm certifications**

	Year 1	Year 2	Total
Estimated certifications	212,000	72,000	284,000
Actual certifications	87,000	13,000	100,000
<b>Percent of estimate realized</b>	<b>41%</b>	<b>18%</b>	<b>35%</b>

Source: OIG analysis of EPA data.

Based on the expected applications, EPA estimated the program costs and related fee collections to be \$61.5 million for the first year and approximately \$22 million for each of the subsequent 4 years (table 1). The actual fee collections of \$22.0 million for FY 2010 and \$9.1 million for FY 2011 (table 2) were less than anticipated due to a lower-than-expected level of firm participation.

EPA stated that when it conducted its economic analysis for the 2008 RRP final rule economic conditions were more favorable than when the RRP program began in 2010. Consequently, the demand for certified firms is less than EPA anticipated when it developed the rule. EPA said it is pursuing efforts to increase certification of renovation firms. OPPT has developed a prioritized list of outreach activities based on target audiences (contractors, consumers, and the health care sector). OPPT and OECA are implementing activities in FY 2012 to increase (1) contractor awareness and compliance with the RRP rule requirements, (2) consumer demand for certified firms, and (3) enforcement of the RRP rule.



## **EPA Has Not Conducted a Biennial Cost Review**

EPA has not conducted a formal cost study to determine its actual lead-based paint program costs and decide whether it needs to adjust the fees to reflect changes in the costs. The CFO Act and OMB Circular A-25 require the Agency to review the user charges for Agency programs biennially. Agencies should discuss the results of the biennial review of user fees and any resultant proposals in the CFO's Annual Report required by the CFO Act. EPA stated that it conducts an economic analysis to support setting fees per the notice-and-comment rulemaking. It also manages its costs for administering and enforcing the Abatement and RRP programs to ensure that annual costs are limited to the funds appropriated annually by Congress. However, these activities do not identify the actual program costs incurred.

OPPT stated that it estimated its costs for the 2009 economic analysis but had not performed a biennial cost review. OPPT stated that while the Agency's cost accounting system can distinguish certain types of costs (i.e., Superfund Program and the Working Capital Fund), EPA has not implemented an approach to track the lead user fee program costs. Therefore, EPA would have to conduct a manual cost study to determine the allocable program costs.

EPA does not have internal guidance for conducting a biennial cost review. A systematic approach to reviewing user fee program costs would help EPA conduct biennial cost studies. Without performing the biennial cost studies prescribed by the CFO Act and OMB guidance, EPA does not have the cost data necessary to determine whether it should update the fees rule.

EPA discussed the results of its user fees biennial review in the FY 2011 Agency Financial Report, as required by OMB Circular A-25. The report concluded that EPA's user fees are in compliance with statutory authority, but the report did not discuss user fee cost reviews. In a discussion with the OIG, EPA's Office of the Chief Financial Officer (OCFO) stated that it will conduct biennial cost reviews for EPA's user fee programs. For the next biennial user fees report, OCFO said it will have EPA's user fee programs include detail on their cost reviews.

## **Fees Structure Does Not Take Into Account All Indirect Costs Needed for Full Cost Recovery**

When EPA prepared an economic analysis to estimate the program costs and develop a fee structure, it did not include all applicable indirect costs. The 2009 economic analysis applied indirect costs to direct labor but not to other direct costs, such as contract costs. OMB Circular A-25 requires the Agency to recover the full cost of providing a service, including indirect costs. By not including all applicable indirect costs in its economic analysis, EPA developed a fee structure that did not recover the full cost of the program.

EPA's 2009 economic analysis determined the fringe benefits and indirect costs applicable to direct labor by applying a multiplier of 1.6 times the direct labor. EPA staff stated that the multiplier accounted for both labor benefits and indirect costs. The application of a 1.6 multiplier was consistent with EPA's February 1999 economic analysis for the June 1999 lead-based paint accreditation and certification fee rule. However, EPA did not have supporting calculations for the multiplier. We believe that an indirect cost rate based on Agency cost calculations would be a more reliable multiplier for applying indirect costs to direct costs.

EPA has not developed indirect cost rates specifically for its user fee programs. However, OCFO develops annual indirect cost rates for interagency agreements. OCFO annually develops interagency agreement indirect cost rates for several headquarters program offices and each region. OCFO posts the annual rates on EPA's Office of Grants and Debarment Intranet website. Because the interagency agreement indirect cost rates are based on OCFO's annual calculations, we consider them to be the most reliable rates available for use by user fee programs.

OPPT's original cost estimates for FYs 2010 and 2011 include direct costs incurred by OPPT for administering the lead Abatement and RRP programs and OECA for performing enforcement activity. To determine full cost estimates, we applied the interagency agreement indirect cost rates to the cost estimates. We applied OCSPP's indirect cost rates of 8.63 percent for FY 2010 and 10.24 percent for 2011 to OPPT's direct costs, and OECA rates of 6.39 percent for FY 2010 and 7.61 percent for FY 2011 to OECA's direct costs. Applying the indirect cost rates added \$3.2 million to cost estimates for the 2 years combined. We included the \$3.2 million indirect costs in our calculations of unrecovered costs for FY 2010 and FY 2011 combined and the 5-year cycle. OCSPP's revised cost estimate applied the appropriate indirect costs rates to direct costs and included \$2.2 million indirect costs. OCFO should determine whether the interagency agreement rates are general purpose rates and, therefore, are appropriate for use by user fee programs, or whether it should develop new rates specifically for the user fee programs. Applying appropriate indirect cost rates to direct costs will help EPA recover the full cost of the program.

## **Internal Controls Over Fee Assessments and Collections Were Generally Effective**

We found EPA's internal controls over the assessment and collection of fees to be generally effective. However, we identified a minor internal control issue related to untimely recording of collections. OMB and the U.S. Government Accountability Office (GAO) require federal agencies to establish and maintain internal controls. Internal controls are an integral component of an organization's management that provide reasonable assurance that the organization achieves effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Although EPA's internal controls were generally

effective, the minor internal control issue we found compromised EPA's ability to ensure that management's directives are followed and assets are safeguarded. EPA's Office of Financial Services (OFS) did not consistently record lead accreditation and certification fee collections timely. We tested 45 collection items and found that 27 (60 percent) were recorded more than 3 working days after receiving notice that the U.S. Treasury received the collection. OFS recorded the collections, totaling \$21,320, between 5 and 21 days after receiving notice of the collection. EPA's Resource Management Directive System 2540-03, *Cash Management Collections and Deposits*, requires the Agency to record collections in the financial system within 3 working days of receiving notice of the collection. GAO's *Standards for Internal Control in the Federal Government* states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

OFS staff stated that during the period of October 2010 through February 2011 OFS experienced a shortage in resources due to an unexpected illness of one of the staff members, which impacted the timeliness of recording collections in IFMS. Recording fee collections untimely increases the risk of inaccurate information in the Agency's accounting system. Because the untimely recording was temporary and OFS has procedures to record collections timely, we are not making a recommendation.

## Conclusion

EPA is not recovering all its costs of administering the lead-based paint program. EPA should prepare a more accurate estimate of program participation and program costs, apply appropriate indirect costs to obtain full cost recovery, and update the 2009 fees rule to reflect the amount of fees necessary to recover the program costs. By not recovering all of its costs, the federal government did not collect funds that otherwise could have been available to offset the federal budget deficit. The President's Budget Message for FY 2012 states that reducing the long-term federal deficit must be a priority. The federal government is looking for ways to save money and cut unnecessary costs. We believe that EPA could help the federal government in this endeavor by collecting more lead fees to recover more of its costs. A fees rule update could result in potential additional revenue of up to \$16.4 million per 5-year cycle based on estimated revenue and program costs for the current cycle. A biennial cost review could provide a more precise determination of potential additional revenue.

## Preliminary Agency Actions

In response to our prior audit report, *EPA Should Update Its Fees Rule to Recover More Motor Vehicle and Engine Compliance Program Costs* (Report No. 11-P-0701, dated September 23, 2011), OCFO agreed to issue guidance to EPA's user fee programs for conducting biennial reviews. Therefore, we make no recommendation for OCFO to issue user fee guidance.

OPPT plans to update the fees rule in conjunction with other regulatory changes in the lead program, e.g., rules underway to address renovation activities in other buildings. Accomplishing that initiative should provide additional recurring annual revenue in future years.

During our field work, EPA addressed the level of program participation by planning outreach activities in FY 2012 to increase certification of renovation firms.

## **Recommendations**

We recommend that the Assistant Administrator for Chemical Safety and Pollution Prevention:

1. Update the March 20, 2009, fees rule to reflect the amount of fees necessary for the program to recover the costs of implementing and enforcing the program.
2. Modify its lead-based paint program cost analysis procedures to apply indirect cost rates to all applicable direct costs in order to obtain the full costs of the program. (The CFO will develop the indirect cost rates.)

We recommend that the Chief Financial Officer:

3. Conduct biennial cost reviews of the lead-based paint program fee collections and the full cost of operating the program to determine whether EPA is recovering its costs.
4. Determine the appropriate Agency indirect cost rates to be used for EPA's user fee programs.

## **Agency Comments and OIG Evaluation**

EPA agreed with the recommendations and provided its intended corrective actions. EPA provided estimated completion dates for recommendations 3 and 4. Recommendations 1 and 2 are unresolved pending receipt of the estimated completion dates.

EPA was concerned that the OIG based its findings on the preliminary data from OPPT's rough cost estimate. The preliminary data was not an authoritative and complete statement of program costs. Therefore, EPA conducted a more refined cost analysis. It presented a projected shortfall over 5 years that was significantly lower than the shortfall in the initial rough cost estimate. At EPA's request, we included the results of EPA's second cost analysis in this report. The second cost analysis did not change the conditions we had previously identified, and we did not change our findings and conclusions.

EPA stated that it would need to conduct a much more accurate cost study after implementing the program for a full 5-year certification cycle. We agree that EPA needs a more accurate cost study. However, EPA should obtain a cost study every other year by conducting biennial cost reviews. EPA agrees and plans to conduct a biennial cost review of the lead-based paint program in FY 2013.



## ***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
1	12	Update the March 20, 2009, fees rule to reflect the amount of fees necessary for the program to recover the costs of implementing and enforcing the program.	U	Assistant Administrator for Chemical Safety and Pollution Prevention		\$42,000 <sup>2</sup>	\$16,400
2	12	Modify its lead-based paint program cost analysis procedures to apply indirect cost rates to all applicable direct costs in order to obtain the full costs of the program. (The CFO will develop the indirect cost rates.)	U	Assistant Administrator for Chemical Safety and Pollution Prevention			
3	12	Conduct biennial cost reviews of the lead-based paint program to determine whether EPA is recovering its costs.	O	Chief Financial Officer	11/15/13		
4	12	Determine the appropriate Agency indirect cost rates to be used for EPA's user fee programs.	O	Chief Financial Officer	9/30/13 <sup>3</sup>		

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<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 unresolved with resolution efforts in progress

<sup>2</sup> The potential monetary benefit represents the cost savings from a fees rule update for a subsequent 5-year certification cycle, based on the estimated and projected unrecovered program costs for the current 5-year cycle ending September 30, 2014. We based the claimed amount on OCSPP's original cost estimate and the agreed-to amount on the second cost estimate.

<sup>3</sup> EPA originally provided a planned completion date of December 31, 2012, in its response to the draft report and subsequently updated it to September 30, 2013.

## ***Details on Scope and Methodology***

We reviewed EPA's processes for the assessment and collection of lead accreditation and certification fees. To gain an understanding of the processes, we:

- Reviewed the applicable laws, regulations, fees rules and supporting economic analyses, and program information
- Reviewed program operating procedures
- Interviewed OPPT, OCFO, and OECA personnel
- Examined the federal lead-based paint program database

We obtained fee collections and roughly estimated program operating costs for FYs 2010 and 2011 and determined whether the collections were sufficient to recover all program operating costs. We examined EPA's economic analyses and their projections of program activity and related program costs.

We tested FY 2011 fee transactions to determine whether EPA assessed the proper fee amount, collected the fee before issuing an accreditation or certification, and recorded the collection timely. We determined whether EPA approved and paid the proper refund amounts. We used the monetary unit method of statistical sampling to test 45 fee collections totaling \$53,420, 5 fee credit transactions totaling \$76,900, and 10 refund transactions totaling \$2,085. The fee collections universe included 32,686 transactions totaling \$9,837,066, and the refunds universe included 3,079 transactions totaling \$776,653. We used random sampling to test 45 accreditation and certification applications out of 29,779 applications in FY 2011 to search for accreditations and certifications issued with no corresponding fee collection.

We assessed the internal controls related to assessing, collecting, and refunding fees. We gained an understanding of the internal controls through interviews with OPPT and OCFO personnel, and examination of fees database information and the related supporting documents. We reviewed EPA's OCSPP and OCFO FY 2011 management integrity assurance letters for reported internal control weaknesses.

We did not assess the reliability of data in OCSPP's information systems because their use did not materially affect our findings, conclusions, or recommendations. We verified fee collection, refund, and certification data by examining supporting documentation and accessing financial information in IFMS. We did not review the internal controls over IFMS from which we obtained financial data, but relied on the review conducted during the audit of EPA's FY 2011 financial statements.

### **Prior Reports Reviewed**

We reviewed the prior EPA OIG and GAO reports listed in table A-1. The EPA OIG report had findings and recommendations related to fee collections and recovery of program costs. The three GAO reports contained information relevant to our review. The GAO reports included a

survey of federal agency fee reviews, a study of how user fee design characteristics influenced the effectiveness of user fees, and a response to a congressional request about user fee reviews. We used the information and issues disclosed in the EPA OIG and GAO reports to help identify issues as we conducted our review.

**Table A-1: Prior reports reviewed**

Report Title	Report No.	Date
2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue	GAO-12-342SP	February 28, 2012
EPA Should Update Its Fees Rule to Recover More Motor Vehicle and Engine Compliance Program Costs	11-P-0701	September 23, 2011
Federal User Fees: A Design Guide	GAO-08-386SP	May 29, 2008
Federal User Fees: Some Agencies Do Not Comply with Review Requirements	GAO-GGD-98-161	June 30, 1998

Source: OIG analysis.

Report No. GAO-12-342SP presented cost savings or revenue enhancement opportunities, including GAO's 2011 survey of federal agency fee reviews. The survey responses indicated that for most fees, agencies (1) had not discussed fee review results in annual reports, and (2) had not reviewed the fees and were inconsistent in their ability to provide fee review documentation.

Report No. 11-P-0701 disclosed that an EPA program was not collecting enough fees to recover all reasonable program costs. EPA had not conducted a formal cost study since 2004 to determine its actual program costs, and had not updated the fees rule to recover more costs. EPA agreed with the report's recommendations and plans to update the fees rule and conduct biennial reviews.

Report No. GAO-08-386SP reported on a study of how user fee design characteristics may influence the effectiveness of user fees. GAO examined how the four key design and implementation characteristics of user fees—how fees are set, collected, used, and reviewed—may affect the economic efficiency, equity, revenue adequacy, and administrative burden of cost-based fees. The principles outlined in the design guide present a framework for user fee design.

Report No. GAO/GGD-98-161 was a response to a congressional request to review agencies' adherence to the user fee review and reporting requirements in the CFO Act and OMB Circular A-25. The report disclosed that 6 of the 24 CFO agencies reviewed all of their reported user fees at least every 2 years as required by OMB Circular A-25 during FYs 1993 through 1997, 3 reviewed all of their reported fees at least once, 11 reviewed some of their reported fees, and 4 did not review any of their reported fees during this period. The agencies provided various reasons for not reviewing fees, including insufficient cost data and because some of the fees set by legislation could not be changed without new legislation.

## ***Lead-Based Paint Program Cost Estimates***

**Table B-1: EPA's Initial Cost Estimates for FYs 2010 and 2011**

	FY 2010	FY 2011
<b>OCSPP</b>		
Personnel Compensation and Benefits	\$9,048,500	\$8,587,900
Travel	143,200	83,200
Contracts, Grants, and Expenses (CG&E) – regional offices	497,000	495,000
CG&E – State and Tribal Assistance Grants and contracts	4,647,700	5,864,900
Subtotal	\$14,336,400	\$15,031,000
OCSPP Indirect Cost Rate	8.63%	10.24%
OCSPP Indirect Costs	\$1,237,231	\$1,539,174
Working Capital Fund	376,000	441,800
<b>OCSPP Full Costs</b>	<b>\$15,949,631</b>	<b>\$17,011,974</b>
<b>OECA</b>		
Personnel Compensation and Benefits	\$1,834,000	\$1,828,000
CG&E – regional offices	1,200,000	1,200,000
Subtotal	3,034,000	3,028,000
OECA Indirect Cost Rate	6.39%	7.61%
OECA Indirect Costs	193,873	230,431
Working Capital Fund	61,000	61,000
<b>OECA Full Costs</b>	<b>\$3,288,873</b>	<b>\$3,319,431</b>
<b>OCSPP and OECA Full Costs (total direct and indirect costs)</b>	<b>\$19,238,504</b>	<b>\$20,331,405</b>

Source: OIG analysis of EPA data.

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

(Received October 3, 2012)

### **MEMORANDUM**

**SUBJECT:** Response to OIG Draft Report No. OA-FY12-0107

**FROM:** James J. Jones  
Acting Assistant Administrator

Barbara J. Bennett  
Chief Financial Officer

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

Thank you for the opportunity to respond to the findings and recommendations in the Office of Inspector General's (OIG's) Draft Report entitled "EPA Is Not Recovering All Its Costs of the Lead-Based Paint Fees Program" (August 30, 2012).

This memorandum summarizes the Office of Chemical Safety and Pollution Prevention (OCSPP) and the Office of the Chief Financial Officer's (OCFO) response to the OIG's findings, along with our position on each of the Draft Report's recommendations. For those report recommendations with which the agency agrees, we have provided either high-level intended corrective actions and estimated completion dates, or reasons why we are unable to provide high-level intended corrective actions and estimated completion dates at this time. For those report findings and recommendations with which the agency does not agree, we have explained our position.

### **Overall Position:**

The cost data upon which the OIG has based its findings and recommendations was provided by OCSPP with the understanding that it was to be used as part of preliminary research only, and was hence not an authoritative and complete statement of program costs. Accordingly, OCSPP has significant concerns about the use of this preliminary data to make the findings presented in the Draft Report. OCSPP expressed this concern to OIG during discussions of its preliminary findings on April 10, 2012, and also informed OIG that OCSPP would be undertaking an effort to gather refined data for the OIG's use in its report.

OCSPP is providing this refined cost data to the OIG as an attachment to this memorandum. As this refined cost data provides a much more accurate picture of the lead program costs for FY10



through FY14, it is our hope that the OIG will carefully consider the revised cost data in finalizing its report.

### **Discussion of Findings:**

#### **Finding 1. Program Costs Exceed Fee Collections:**

The OIG's analysis to support this finding consists of a comparison between estimated fee collections and program costs for the Lead-based Paint Program for the years FY2010 to FY2014. The Draft Report acknowledges that "EPA had not conducted a formal cost study to determine its actual program costs" and that at the request of the OIG the program office "developed a rough estimate" of these costs for FY2010 and FY2011 "quickly without performing a thorough cost analysis." Despite these significant reservations expressed about the accuracy of the underlying data, the Draft Report nevertheless relies on this data to extrapolate program costs for FY 2012 to FY2014, and concludes with numerical specificity that there is a shortfall in unrecovered program costs for the Lead-based Paint Program for the five-year period in question.

OCSPP cautions against attaching a specific dollar number to the "shortfall in unrecovered program costs" without conducting a comprehensive cost analysis, because it conveys a false sense of precision about the data underlying that conclusion. OCSPP believes it is inadvisable to predict five years of program cost and revenue based on preliminary and limited data, and it is misleading to project a specific dollar amount of shortfall using preliminary data. A much more accurate cost study would need to be conducted after implementing the Lead-based Paint Program for a full five-year certification cycle.

Furthermore, OCSPP finds the Draft Report's extrapolation of costs from two years of data (FY 2010 and FY2011) to a five-year time frame particularly problematic because it fails to make any adjustments or even to discuss the complexity and cyclical nature of the Lead-based Paint Program. As discussed extensively with the OIG, taking this approach to extrapolating costs does not account for the efficiencies and cost reductions that OCSPP expects to accrue as the RRP program matures through the first five-year certification cycle. As a certification program matures, the program becomes more efficient in processing and reviewing applications, thereby reducing labor costs. This likely outcome is evident from the reduction of fees collected associated with the abatement portion of the Lead-based Paint Program that EPA realized in the 1999 Fee Rule. Likewise, as has been experienced with the abatement program, as states and tribes become authorized to operate a lead program in lieu of the EPA program, program costs will commensurately decrease. The Lead-based Paint Program has made certain investments in the first two years of the program in IT and other infrastructure that increase efficiency, which will in turn decrease labor costs and, hence, overall program cost.

Due to OCSPP's significant concern with data underlying the Draft Report's conclusions, OCSPP has conducted an in-depth analysis of fee-related program activities (see Appendix A). Briefly, OCSPP compiled a list of Lead Program activities and identified those which are fee-related and those which are not. OCSPP then gathered information from HQ and all ten Regional Office Lead Program components in order to provide more refined Lead Program cost estimates.

OCSPP's refined analysis indicates actual program costs for FY10 and FY11 were \$13.1 million and \$14.2 million, respectively. This is in contrast to the preliminary estimates of \$19.2 and \$20.3 million, respectively, which were cited in the OIG's Draft Report. In addition, rather than simply using FY11 costs for FY12-14 as the OIG did, OCSPP has provided a cost estimate for FY12 that is based on actual costs for 9 months of this fiscal year (\$10.9 million) and an FY13 cost estimate that is based on the President's Budget (\$11.2 million). With this actual data available, OCSPP only had to project FY14 costs, which was done using FY13 costs (\$11.2 million). Details on OCSPP's refined cost estimates are provided in Appendix A.

In summary, OCSPP's refined cost estimates are based on more realistic data rather than simplified assumptions, and include refined data for FY10 and FY11, an FY12 estimate based on actual data for 9 months of the fiscal year, FY13 data from the President's Budget, and projected data for FY14. Based on this refined analysis, OCSPP determined that the Lead-based Paint Program recovered its program costs in the first two years, and the projected shortfall over five years is significantly lower than the rough estimates OIG used to make its findings in the Draft Report.

#### Finding 2. RRP Firm Participation is Lower Than Projected

The Draft Report states that "EPA's economic analysis overestimated the level of firm participation in the program and the number of RRP applications." This language implies that EPA somehow erred in estimating the number of firms needing certification. An economic analysis is developed to support rulemaking, and is therefore a projection based on the facts available at the time. The estimates of Lead-based Paint Program participation were made to support the rule-making and underwent the usual Agency, OMB and public review processes without any major comment as to the projections of firm participation. The successful completion of this process and the lack of comments on these estimates indicates that, at the time, they were reasonable, and that there was no error in EPA's approach or conclusions. However, EPA's projections were made prior to the severe economic downturn experienced in the U.S., which likely caused, if not strongly contributed to, the number of firms actually participating in the RRP program to be at the lower end of the projected range. Nevertheless, EPA's economic analysis for the Lead-based Paint Program included a sensitivity analysis to account for variance in economic conditions. A review of the data indicates that the actual participation has fallen within the range estimated within that sensitivity analysis, further supporting that the projections were appropriate for their purpose.

#### Finding 3. EPA Has Not Conducted a Biennial Cost Review

OCFO concurs in this finding.

#### Finding 4. Fees Structure Does Not Take Into Account All Indirect Costs Needed for Full Cost Recovery

The Draft Report states that "When EPA prepared an economic analysis to estimate the program costs and develop a fee structure, it did not include all applicable indirect costs." As OCSPP explained in discussions with the OIG, the economic analysis for the 2009 Fees Rule is an

estimate of future costs for use by decision-makers (along with other information including program participation rate forecasts and effects of fees on small businesses) in considering regulatory options. OCSPP believes a much more accurate estimate could be conducted after implementing the RRP aspect of the lead program for a five-year certification cycle and after having performed biennial reviews following guidance provided by the OCFO.

**Finding 5.** Internal Controls Over Fee Assessments and Collection Were Generally Effective

OCFO concurs in this finding.

**Discussion of Recommendations:**

**Recommendation 1.** Update the March 20, 2009, fees rule to reflect the amount of fees necessary for the program to recover the costs of implementing and enforcing the program.

Concur. OCSPP will proceed with updating the 2009 Fees Rule following completion of at least one 5-year cycle of the RRP accreditation and certification program, if warranted, based on findings from at least two consecutive biennial reviews that the Lead Program costs continue to exceed the amount fees collected.

- OCSPP is unable to provide an estimated completion date at this time.

**Recommendation 2.** Modify its lead-based paint program cost analysis procedures to apply indirect cost rates to all applicable direct costs in order to obtain the full costs of the program. (The CFO will develop the indirect cost rates.)

Concur. Upon clarification of applicable indirect cost rates by OCFO, OCSPP will modify cost analysis procedures as appropriate.

- OCSPP is unable to provide an estimated completion date at this time.

**Recommendation 3.** Conduct biennial cost reviews of the lead-based paint fee collection and full cost of operating the program to determine whether EPA is recovering costs.

Concur. In accordance with Office of Management and Budget Circular A-25, User Charges and the Chief Financial Officer's Act of 1990, the Office of the Chief Financial Officer will conduct a review of the Lead-Based paint fee collections and the full cost of operating the program to determine whether EPA is recovering its costs. This will be performed in accordance with the next biennial cost review scheduled for FY 2013.

- Estimated completion date: November 15, 2013

**Recommendation 4.** Determine the appropriate Agency indirect cost rates to be used for EPA's user fee programs.

Concur. OCFO will develop the appropriate indirect cost rate for the EPA user fee programs including the lead-based paint program.

- Estimated completion date: December 31, 2012

**Conclusion:**

Thank you for the opportunity to comment on this Draft Report. If you have questions, please feel free to contact me, or to have your staff contact Janet Weiner at (202) 564-2309.

Attachment A

## APPENDIX A

### *OCSPS Lead-based Paint Program Cost Estimates*

<b>OCSPS Costs</b>	<b>2010</b>	<b>2011</b>	<b>2-Year Total</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>5-Year Total</b>
PC&B	\$4,137,200	\$3,833,600	\$7,970,800	\$3,368,000	\$3,619,200	\$3,619,200	\$18,577,200
Travel	\$65,500	\$34,800	\$100,300	\$29,000	\$30,700	\$30,700	\$190,700
CG&E – Regional Offices	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CG&E – STAG grants & contracts	\$4,647,700	\$5,864,900	\$10,512,600	\$3,400,000	\$3,331,000	\$3,331,000	\$20,574,600
Sub-total	\$8,850,400	\$9,733,300	\$18,583,700	\$6,797,000	\$6,980,900	\$6,980,900	\$39,342,500
OCSPS Indirect Cost Rate	8.6%	10.2%		10.2%	10.2%	10.2%	
OCSP Indirect Costs	\$763,790	\$996,690	\$1,760,479	\$696,013	\$714,844	\$714,844	\$3,886,181
WCF	\$257,100	\$321,900	\$579,000	\$185,400	\$260,300	\$260,300	\$1,285,000
OCSPS Full Costs – Total direct & indirect costs	\$9,871,290	\$11,051,890	\$20,923,179	\$7,678,413	\$7,956,044	\$7,956,044	\$44,513,681
<b>OECA Costs</b>							
OECA costs	\$3,000,000	\$3,000,000	\$6,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$15,000,000
OECA Indirect Cost Rate	6.4%	7.6%		7.6%	7.6%	7.6%	
OECA Indirect Costs	\$191,700	\$228,300	\$420,000	\$228,300	\$228,300	\$228,300	\$1,104,900
OECA Full Costs – Total direct & indirect costs	\$3,191,700	\$3,228,300	\$6,420,000	\$3,228,300	\$3,228,300	\$3,228,300	\$16,104,900
<b>Total Costs</b>							
OCSPS & OECA Full Costs	\$13,062,990	\$14,280,190	\$27,343,179	\$10,906,713	\$11,184,344	\$11,184,344	\$60,618,581
Fees collected	\$22,010,546	\$8,675,000	\$30,685,546	\$4,059,894	\$4,665,182	\$4,850,168	\$44,260,790
Excess (shortage) of fees	\$8,947,556	(\$5,605,190)	\$3,342,367	(\$6,846,819)	(\$6,519,162)	(\$6,334,176)	(\$16,357,791)



***Lead Risk Reduction Program Resources, FY 2010 - FY 2014: Summary of Changes from Preliminary (March 12, 2012) Estimates***

OCSPP's preliminary estimate of costs used a simplifying assumption that all Regional FTE, PC&B, Travel, CG&E and WCF were fee related resources. With the additional time taken to refine our assessment, OCSPP has worked with all 10 EPA Regional Offices to provide realistic data-based cost estimates for each of these cost categories.

Methodology:

Step 1: OCSPP-HQ queried each of the Regional Lead Program managers asking them to provide best estimates of the proportion of their Lead Program FTE dedicated to fee-related and non-fee related activities for Fiscal Years 2010-2012. Program activities that should be attributed to fee-related and non-fee-related categories were provided to the Regions as guidance for conducting the assessment to ensure that each Region was able to distinguish among fee-related and non-fee-related activities in a consistent manner. (See below "Lead-based Paint Abatement and RRP Program Costs")

Step 2: The proportion of each Region's FTE that was designated as fee-related was applied across the remaining Regional cost categories (i.e., PC&B, Travel, and WCF), to estimate the amount of each of these cost categories that is used for fee-related activities.

The exercise conducted with the Regional Lead Programs also verified that no Regional EPM CG&E resources are used for fee-related activities.

OCSPP's preliminary cost estimates provided to OIG were only for FY10 and FY11, as these were the only data available for the preliminary analysis. OCSPP's refined cost estimates include FY12 resources derived from the Agency's FY12 operating plan and FY13 resources derived from the President's FY13 Budget. FY14 resources are estimated from the FY13 figures. This refined information provides a much more realistic estimate of the fee-related costs of the Lead Program for FY10-FY14.

OCSPP's preliminary fee revenues provided to OIG were only for FY10 and FY11, as these were the only data readily available for the preliminary analysis. OCSPP's refined fee revenue estimates include actual FY12 fee revenue through August 2012 and extrapolated from this FY12 trend through September, 2012. The FY13 and FY14 revenue figures are estimated based on the FY12 figures. This refined information provides a much more realistic estimate of the fee revenue for the Lead Program for FY10-FY14.

### ***Lead-based Paint Abatement and RRP Program Fee- and Non-Fee-Related Activities***

As specified in the Toxic Substances Control Act (TSCA), EPA must establish and implement a fee schedule to recover to the U.S. Treasury the Agency's costs of administering and enforcing the standards and requirements applicable to lead-based paint training programs and contractors.

Relevant statutory language from TSCA section 402(a)(3):

*Accreditation and certification fees. The Administrator (or the State in the case of an authorized State program) shall impose a fee on – (A) persons operating training programs accredited under this title; and (B) lead-based paint activities contractors certified in accordance with paragraph (1). The fees shall be established at such level as is necessary to cover the costs of administering and enforcing the standards and regulations under this section which are applicable to such programs and contractors. The fee shall not be imposed on any State, local government, or nonprofit training program. The Administrator (or the State in the case of an authorized State program) may waive the fee for lead-based paint activities contractors under subparagraph (A) for the purpose of training their own employees.*

Examples of fee-related activities:

- Review/approval of abatement or RRP training provider applications
- Review/approval of abatement individual applications
- Review/approval of abatement firm applications
- FLPP redesign activities
- Application status inquiries

Examples of non-fee-related activities:

- Oversight of State and Tribal grants to implement abatement and/or RRP programs
- Outreach to State, Tribes and Territories to discuss possible authorization for abatement and/or RRP programs
- Outreach to the public
- Outreach to the regulated community
- Regulation development
- Interpretive guidance activities

## ***Distribution***

Office of the Administrator  
Assistant Administrator for Chemical Safety and Pollution Prevention  
Chief Financial Officer  
Agency Follow-Up Coordinator  
General Counsel  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for External Affairs and Environmental Education  
Deputy Chief Financial Officer  
Director, Office of Financial Management, Office of the Chief Financial Officer  
Deputy Director, Office of Financial Management, Office of the Chief Financial Officer  
Director, Office of Financial Services, Office of the Chief Financial Officer  
Deputy Director, Office of Financial Services, Office of the Chief Financial Officer  
Audit Follow-Up Coordinator, Office of Chemical Safety and Pollution Prevention  
Audit Follow-Up Coordinator, Office of the Chief Financial Officer  
Audit Follow-Up Coordinator, Office of Financial Management, Office of the Chief Financial Officer