
Office of Inspector General

Audit Report

*Report on Oil Spill Cleanup
Procurements*

U.S. Coast Guard

*Report Number: R3-CG-7-005
Date Issued: April 18, 1997*





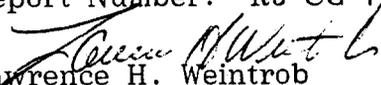
U.S. Department of
Transportation

Office of the Secretary
of Transportation

Office of Inspector General

Memorandum

Subject: INFORMATION: Report on Oil Spill Cleanup Date: April 18, 1997
Procurements, U.S. Coast Guard
Report Number: R3-CG-7-005

From: 
Lawrence H. Weintrob Reply to
Assistant Inspector General for Auditing Attn of: JA-1

To:
Chief of Staff
U.S. Coast Guard

We are providing this report for your information and use. Your March 17, 1997, comments on the January 9, 1997, draft report were considered in preparing this report. A synopsis of the report follows this memorandum.

You agreed with the report findings and recommendations. Action taken is responsive to the recommendations and we consider the report resolved, subject to the followup provisions of Department of Transportation Order 8000. 1C.

I appreciate the courtesies and assistance extended to our staff during the audit. If you have any questions, or require additional information, please contact me at (202) 366-1992, or Harry Fitzkee, Regional Manager, Region III, at (410) 962-3612.

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U.S. Department of
Transportation

Office of Inspector General

Oil Spill Cleanup Procurements

U.S. Coast Guard

Report Number R3-CG-7-005

April 18, 1997

Objectives

The objectives of the audit were to evaluate the U.S. Coast Guard (Coast Guard) policies, procedures, and practices for procuring oil spill cleanup services, monitoring of contractor performance, and recovery of costs from responsible parties.

Conclusions

The Coast Guard policies and procedures for monitoring contractor performance were effective. We found internal controls for monitoring activities of the oil spill cleanup services contractors were sufficient to ensure oil spill cleanups were completed in an effective manner. However, the Coast Guard needs to improve its policies, procedures, and practices for (i) procurement of oil spill cleanup services and (ii) recovery of oil spill cleanup costs from responsible parties.

Monetary Impact

The Coast Guard spent at least \$912,935 in cleanup costs which could have been avoided. In addition, for Fiscal Years 1994 and 1995, only about \$3 million out of \$19.4 million in costs had been recovered, and about \$8 million of accounts receivable for Fiscal Year 1995 and prior periods remained unbilled as of April 30, 1996.

Recommendations

We recommended the Coast Guard (i) develop definitive uniform national contracting procedures, (ii) ensure compliance with the requirement for annual market surveys of oil spill cleanup contractors, (iii) ensure policies and procedures are followed for billing responsible parties and recovery of oil spill costs, and (iv) expedite the billing of \$8 million in accounts receivable that were unbilled as of April 30, 1996.

SYNOPSIS



U.S. Department of
Transportation

Office of Inspector General

Management Position

The Coast Guard agreed with the findings and recommendations and has taken or initiated corrective actions, including establishing target dates, to resolve the problems identified in this report. A Coast Guard plan for national contracting procedures is under development, and annual market surveys will be up-to-date by February 1998. New interim billing policies and procedures were implemented in August 1996 requiring monthly billing for cases with unbilled costs of \$50,000 or more. Also, \$4.5 million of the \$8 million in unbilled accounts receivable as of April 30, 1996, were billed as of February 10, 1997. In cooperation with Environmental Protection Agency, it is expected the remaining unbilled amount will be billed by December 1997.

Office of Inspector General Comments

The corrective actions taken and planned by the Coast Guard are reasonable and the recommendations are considered resolved.

SYNOPSIS

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TRANSMITTAL MEMORANDUM

SYNOPSIS

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I. INTRODUCTION

Background

The Oil Pollution Act of 1990 created the Oil Spill Liability Trust Fund as a \$1 billion fund to deal with liability, compensation, and other issues stemming from threatened or actual oil spills. The fund was financed by a five cent per barrel tax on domestic and imported oil. The fund also receives income from cost recoveries, fines and penalties, investment earnings, and roll-over transfers from the Trans-Alaska Pipeline Trust Fund.

The majority of oil spill cleanup services involving Federal funding are secured from private contractors. In order to expedite the processing of contracts for the containment and cleanup of oil and hazardous substance spills, the preferred U.S. Coast Guard (Coast Guard) method of contracting is through the placement of orders against Basic Ordering Agreements (ordering agreements) using a time and materials pricing agreement. The ordering agreements are written instruments of understanding negotiated between the Coast Guard and the oil spill cleanup contractors which specify the terms and conditions that will apply to future orders, including ordering procedures, pricing methods, and payment terms. The Maintenance and Logistics Commands (MLC) Atlantic (MLCLANT) and Pacific (MLCPAC) are responsible for awarding ordering agreements to oil spill cleanup contractors.

When an oil spill is reported, the Coast Guard Marine Safety Office or Environmental Protection Agency (EPA) Region responsible for the area in which the spill occurred becomes the on-scene coordinator to oversee the cleanup process. A Federal project number is requested by the on-scene coordinator from the applicable Coast Guard District when there is a likelihood Oil Spill Liability Trust Funds will be needed to pay for cleanup services or claims resulting from a spill.

The Coast Guard's National Pollution Funds Center (NPFC) located in Arlington, Virginia, administers the Oil Spill Liability Trust Fund. The NPFC's major goals are to (i) provide funds for timely removal actions and for the initiation of natural resource damage assessments, (ii) compensate claimants demonstrating damages caused by oil pollution, and (iii) recover funds from parties responsible for oil pollution costs and damages. The NPFC maintains case files documenting the history of every oil spill which resulted in the potential use of the Trust Fund. An automated information system records and tracks various events as an aid to case management.

Objectives, Scope, and Methodology

The objectives of the audit were to evaluate the Coast Guard policies, procedures, and practices for procuring oil spill cleanup services, monitoring of contractor performance, and recovery of costs from responsible parties.

We visited the MLCLANT and MLC PAC located at Governor's Island, New York City, New York, and Coast Guard Island, Alameda, California. We also visited the NPFC in Arlington, Virginia, and Marine Safety Offices at Houston, Texas, and New Orleans, Louisiana, as well as a Marine Safety Unit in Galveston, Texas.

We determined 658 Fiscal Years (FY) 1994 and 1995 oil spill cases were administered by the Coast Guard on-scene coordinators and had responsible parties identified. The total cost recorded in NPFC's information system for the 658 cases was \$101,513,559. This amount included \$82.1 million spent to cleanup and pay damage claims resulting from a major oil spill which occurred in January 1994 at San Juan, Puerto Rico. We did not review any oil spill cases monitored by the EPA on-scene coordinators or mystery spills (a spill where no responsible party has been identified).

In evaluating the Coast Guard's policies, procedures, and practices for procuring oil spill cleanup services, we documented the process used to solicit new contractors, reviewed solicitations, and evaluated the timeliness of vendor offer reviews at both MLCLANT and MLC PAC. We compared standard contract pricing with ordering agreement pricing. At two Marine Safety Offices and one Marine Safety Unit, we reviewed files maintained on oil spill cleanups and ordering agreement updates provided by the MLC. We also obtained data on each Marine Safety Office's and the Marine Safety Unit's pollution case workload.

We evaluated the Coast Guard's policies, procedures, and practices for monitoring contractor performance through interviews, observations, and pollution case file reviews. We interviewed on-scene coordinators and their representatives to identify the procedures followed by Marine Safety Office personnel when initially responding to a spill and during the cleanup process. We observed the monitoring of the contractor performance by the Coast Guard personnel.

Also, in evaluating the Coast Guard policies, procedures, and practices for recovery of costs from responsible parties, we randomly selected 35 of 658 Coast Guard administered oil spill cases for a detailed review. After obtaining the 35 case files, we eliminated 11 cases from further

review because 10 were deactivated without any fund expenditures and one file was not available. For the remaining 24 cases, we determined whether (i) on-scene coordinators were submitting final pollution reports within 30 days after the end of a removal activity, (ii) first billings were sent, and (iii) late notices were sent at 30 and 60-day intervals. We also followed up on 201 cases totaling \$15.5 million which were unbilled as of September 30, 1995.

The audit was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. We conducted the audit from January 4 through July 30, 1996.

Management Controls

We reviewed the controls over timeliness in the award of basic ordering agreements, reasonableness of rates obtained during the negotiation process, and effectiveness of monitoring cleanup contractor performance. In addition, we reviewed the controls associated with the timely recovery of oil spill cleanup costs from responsible parties. Management control weaknesses are discussed in Part II of the report.

Prior Audit Coverage

The Office of Inspector General's Audit of Coast Guard's FY 1995 Financial Statement (Report No. R3-CG-6-002) reported improvements were needed in the management of accounts receivable reported for the Oil Spill Liability Trust Fund. Specifically, procedures were needed at the NPFC to (i) ensure accounts receivable recorded in the Departmental Accounting and Financial Information System are reconciled with accounts receivable recorded in subsidiary records periodically, at least on a quarterly basis, (ii) ensure interest, penalties, and administrative charges are accrued monthly and recorded to all outstanding accounts receivable balances, and (iii) evaluate the collectability of outstanding accounts receivable properly in order to determine an appropriate allowance for uncollectable accounts.

II. FINDINGS AND RECOMMENDATIONS

The Coast Guard policies and procedures for monitoring contractor performance were effective. The Coast Guard's on-scene coordinator representatives were actively involved in directing contractor activities, were well-informed about specific monitoring requirements, and were accurate in documenting case files. We found internal controls for monitoring activities of the oil spill cleanup services contractors were sufficient to ensure oil spill cleanups were completed in an effective manner. However, we found the Coast Guard needs to improve its policies, procedures, and practices for (i) procurement of oil spill cleanup services and (ii) recovery of oil spill cleanup costs from responsible parties.

Finding A: Procurement of Oil Spill Cleanup Services

The Coast Guard did not award basic ordering agreements timely and did not ensure negotiated labor and equipment rates were within a reasonable price range. This occurred because the Coast Guard did not have definitive uniform national contracting procedures designed to generate the lowest competitive prices. As a result, the Coast Guard spent at least \$912,935 in cleanup costs which could have been avoided. In addition, opportunities to increase competition were lost.

Discussion

The Federal Acquisition Regulations (FAR), Part 16.703, defines a basic ordering agreement as a "written instrument of understanding, negotiated between an agency, contracting activity, or contracting office and a contractor, that contains (1) terms and clauses applying to future contracts (orders) between the parties during its term, (2) a description, as specific as practicable, of supplies or services to be provided, and (3) methods for pricing, issuing, and delivering future orders under the basic ordering agreement." The FAR also requires the contracting activity to perform an annual review before the anniversary of the effective date of each basic ordering agreement.

The Coast Guard Acquisition Procedures, Subchapter 1217.9201, identifies the preferred method of contracting for oil spill cleanup services as the placement of orders against a basic ordering agreement using a time and materials pricing arrangement. When supplies or services are required that are not covered by an existing ordering agreement or when contractors with existing agreements do not want to perform the work, the requirement is referred to the MLC contracting officer.

The Coast Guard Acquisition Procedures, Subchapter 1217.9203(b), states "MLC contracting officers will conduct market surveys for additional sources at least annually, using Commerce Business Daily synopses and other appropriate techniques."

Basic Ordering Agreements Not Awarded Timely

The MLCs are responsible for negotiating and awarding basic ordering agreements from vendor offers. We found the Coast Guard experienced excessive delays in reviewing and processing these offers. The average time to award an ordering agreement at one MLC was 19.95 months while at the other it was 8.2 months.¹ In addition, as of July 25, 1996, one MLC awarded only seven ordering agreements from 62 offers received by September 15, 1995. These delays forced the Coast Guard to negotiate ordering agreements or separate emergency contracts at the time of, rather than prior to, an oil spill. This practice resulted in higher pricing. In addition, because the length of time to complete the review process was excessive, we found market surveys were conducted every other year rather than annually as required.

Price Negotiations

The Coast Guard did not obtain reasonable prices when negotiating basic ordering agreements. For example, at one MLC, although a systematic approach was used to determine reasonable price ranges, ordering agreements were awarded with prices above the identified reasonable range without sufficient attempts to negotiate lower prices. The process used at this location to determine reasonable price ranges included placing offer prices of each line item from each offeror into a computerized spreadsheet. An average price per line item based on each offeror's bid and a plus and minus range was used to determine the reasonable price range. The MLC would advise vendors of line items outside the reasonable price range and ask them to provide a best and final offer. We found best and final offers were accepted without further negotiation even though there were line items priced above the reasonable range.

Conversely, we found the other MLC negotiated prices more aggressively, but did not maintain a systematic approach needed to

¹ While the Coast Guard did not establish timeliness standards for processing ordering agreements, the FAR requires annual updates and annual market surveys. In addition, contracting personnel informed us one of their performance factors is to award an ordering agreement within 180 days.

provide a similar level of assurance in determining reasonable price ranges. We found the basis for determining reasonable price ranges was from comparing prices of selected line items from a minimum of three vendors. Contract specialists used their own judgment in selecting vendors for price reasonableness comparisons. Although we found no consistency in how price reasonableness was determined, we did find efforts to negotiate prices were more aggressive.

Need for Definitive Uniform National Contracting Procedures

Ordering agreements were not awarded timely and cleanup costs were not always reasonable due to the absence of definitive uniform national contracting procedures. Although both MLCs established their own operational approaches for soliciting, negotiating, and awarding basic ordering agreements resulting in varying degrees of success, neither MLC implemented sufficient internal control policies and procedures for ensuring timely completion of the ordering agreement process. Goals or target dates were not established and effective tracking systems were not in place to identify workload and assess progress.

Goals or Target Dates. The Coast Guard did not establish written goals or target dates for initiating or completing phases of the ordering agreement process such as initiating annual market surveys, processing vendor offers, awarding basic ordering agreements, and updating existing ordering agreements. For example, no date was established for placing an advertisement in the Commerce Business Daily to begin the annual market survey process. No date was identified for solicitation packages to be ready for mailing. There were no written goals established for reviewing completeness of vendor offers, for determining the reasonableness of the rates, for finalizing rate negotiations, or for awarding ordering agreements. As a result, ordering agreements were not processed timely and contractors did not receive quality customer service in response to their offers. In our opinion, Coast Guard establishment of goals or targets for completing phases of the ordering agreement process would be an effective tool in controlling the timeliness of awarding ordering agreements.

Tracking Systems. The Coast Guard did not maintain an effective tracking system to manage the oil spill procurement workload. Vendor offers were not prioritized to determine the order in which they would be reviewed and awarded. Target dates were not established for accomplishing each step in the review process. Firm deadlines were not established for vendor response in each phase of the negotiation

process. In addition, it was difficult to determine the status of each offer. This limited management's ability to assess and distribute the oil spill contracting workload.

Ordering Agreements and Emergency Contracts Awarded During Spill Emergencies Reflect Higher Prices

New ordering agreements or emergency contracts were negotiated and awarded during oil spill cleanup emergencies because the delay in awarding basic ordering agreements led to a lack of pre-existing ordering agreements. Ordering agreements and contracts awarded during emergency conditions reflected higher prices. We compared selected rates from negotiated ordering agreements to rates in emergency contracts awarded during an oil spill emergency for the same vendors in a geographic area. We applied both rates to invoices from oil spill cleanup services to determine if delays in awarding ordering agreements resulted in additional costs for the cleanup services. We found for three oil spill cases, at least \$912,935 of additional costs for cleanup services under emergency contracts could have been avoided if ordering agreements with the same vendors had been in place prior to the spill.

In the first case, we selected a major contractor and reviewed three labor cost line items (supervisor, foreman, and technician) used for beach cleanup. For example, under the ordering agreement, the supervisor hourly rate was \$37.50 while under the emergency contract, it was \$48. The hourly rate for a foreman was \$34.50 versus \$40, and for technicians \$22.50 versus \$27.50. Applying both sets of rates to the same invoices, we found the Coast Guard could have saved an estimated \$634,316 had the Coast Guard negotiated and awarded the ordering agreement with the vendor during the 6 month period prior to the oil spill when the vendor had an offer pending.

In the second case, we found several emergency contracts were awarded to a single vendor during a major oil spill even though an ordering agreement offer had been submitted by this vendor 4 months earlier. We reviewed one of these emergency contracts and found the contract was not as specific as the ordering agreement language would have been for travel cost reimbursements. The standard ordering agreement stated, "meals and lodging for contractor employees shall be paid when contractor employees are required by the on-scene coordinator to be at a spill site more than one calendar day and the spill site is not within daily commuting distance of the contractor's facilities and/or the employee's home." However, the emergency contract awarded during the spill stated, "Actual, reasonable charges

will be reimbursed." As a result, the Coast Guard paid \$259,582 in travel costs that would not have been allowed under the ordering agreement since this vendor represented itself as a local company.

In the third case, we found at least \$19,037 in cost savings would have been realized on a single cleanup action if the ordering agreement had been in place prior to the emergency. We compared labor and equipment rates for an emergency contract with the rates awarded under a subsequent ordering agreement for the same vendor. The vendor had submitted the initial offer more than 16 months prior to the emergency. However, an ordering agreement had not yet been awarded. Because the ordering agreement was not in place at the time of the emergency, a separate contract was negotiated. Both labor and equipment rates were higher for the spill emergency contract than for the ordering agreement awarded less than 4 months later. We applied ordering agreement rates to invoices submitted for this spill emergency and found the Coast Guard would have saved \$19,037.

Recommendations

We recommend the Coast Guard:

1. Develop definitive uniform national contracting procedures. These procedures should (i) establish goals or targets for the ordering agreement award process, (ii) create a method to account for and track the processing of vendor offers, and (iii) implement a process that provides a high level of assurance for determining a reasonable price range and ensuring prices offered by vendors above the reasonable price range are effectively negotiated.
2. Ensure compliance with the requirement for annual market surveys of oil spill cleanup contractors.

Management Response

The Coast Guard agreed with the finding and stated a plan is being developed for national contracting procedures to be completed by February 1998. However, local conditions, such as the need for unique "cooperative" ordering agreements in the Pacific area, and the emergency nature of many spills, may demand different approaches. Notwithstanding these differences, the Coast Guard will continue to strive towards the greatest level of uniformity practical between MLCPAC and MLCLANT. In addition, four positions were established at MLCLANT to help schedule, track, and achieve future ordering agreement solicitation, award, and updating efforts at both MLCs.

Many improvements have already been made at MLCLANT by meeting its November 1996 goal of tracking, negotiating, and awarding all of its new ordering agreements. Similar results are expected in the future at MLCPAC. With the addition of the four new positions, the Coast Guard expects the annual surveys to be up-to-date by February 1998.

Audit Comments

We consider the actions taken and planned by the Coast Guard to be responsive to the finding and recommendations. The recommendations are considered resolved.

Finding B: Recovery of Cleanup Costs

The Coast Guard did not issue billings timely to responsible parties to recover oil spill costs. This occurred because policies and procedures were not being followed. As a result, for FYs 1994 and 1995, only \$3 million out of \$19.4 million in costs was recovered, and about \$8 million of accounts receivable for FY 1995 and prior periods remained unbilled as of April 30, 1996.

Discussion

The "Technical Operating Procedures for Resource Documentation Under OPA-90" and NPFC guidance entitled, "Financial Functions of the Federal On-Scene Coordinator During Oil Spill Responses," task on-scene coordinators with timely cost reporting responsibilities and require on-scene coordinators to send Final Financial Incident Summary Reports (Financial Summary Reports) to the NPFC within 30 days after completion of an oil spill cleanup. When the response extends beyond 30 days, then reporting is required at 30 day intervals.

Chapter I of the NPFC Standard Operating Procedures Manual establishes case management policies and procedures for oil spill case files maintained by NPFC. Section 3 of Chapter I entitled, "Cost Documentation" requires the following:

Final submission of cost documentation should be made approximately 30 days after completion of removal activities. . . . If removal activities are not expected to exceed 60 days, the cost documentation should be submitted by the OSC {on-scene coordinator} to the NPFC approximately 30 days after completion of removal activities.

Section 4 of Chapter I entitled, "Billing and Collection" includes procedures for billing and collection to recover costs from responsible parties and further states:

All bills should be interim unless all costs deemed to be recoverable have been incorporated. . . . Interim billings should be sent monthly; more often when actual costs exceed approximately \$50,000. For routine cases, where costs are finalized within one month, the billings can be sent as soon as all costs are finalized.

Follow Up in 30 Days: If the RPs {responsible parties} have not paid the full amount of the bill within 30 days after the initial billing, the Case Officer should prepare and send a second billing letter.

Follow Up in 60 Days: If RPs have not paid the full amount of the bill within 60 days after the initial billing, the Case Officer should prepare and send a third billing letter with the Case Attorney's signature.

Timely Billings

Significant delays occurred in billing responsible parties for the recovery of Oil Spill Liability Trust Funds spent for cleanup services. We reviewed 24 randomly selected oil spill cases where responsible parties were identified. We found it took an average of 219 days after the spill was cleaned up to bill the responsible party. Included in these elapsed days were 117 days (30 days established standard) until the on-scene coordinator submitted the Financial Summary Report and an average of 102 days to bill the responsible party after receipt of the Financial Summary Report. Current Coast Guard policy and procedures state interim billings should be sent monthly. In addition, in a February 1995 memorandum, the Director of the NPFC identified general objectives for the case management process. Billing responsible parties within 30 days after the receipt of cost documentation from the on-scene coordinators is one of these general objectives.

Interim Billings

Monthly interim billings were not prepared timely by NPFC when the cleanup period exceeded 30 days, nor were interim billings prepared more frequently when cleanup costs exceeded \$50,000. Included in our review of 24 cases were three cases where cleanup services extended beyond 30 days and two cases where the cleanup was completed under 30 days but costs exceeded \$50,000. We found timely interim billings were not issued in two of the three cases in which the cleanup period extended beyond 30 days. Initial interim billings were not prepared until 245 and 690 days after the cleanup was completed. Second interim billings were issued 99 and 178 days after the initial interim billings. As of June 30, 1996, final billings had not been issued. Also, interim billings were not issued on the two cases in which the cleanup was completed under 30 days but recorded cleanup costs of over

\$197,000 and \$183,000 each. Final billings were issued 136 and 274 days after the cleanup was completed.

Followup Billing Letters

NPFC did not meet the established 30 and 60 day standard for issuing followup letters after initial billing. We determined followup requirements applied to 15 of the 24 cases we reviewed. Our analysis of the 15 cases showed first followup letters were issued on time in two of the cases, followup letters exceeded the 30 day standard in eight of the cases, and no followup letters were issued in five cases. Similar results were found in our analysis of the issuance of second followup letters. Of the 15 cases which met the 60 day followup requirement, we found six cases where the followup letters exceeded the 60 day standard and nine cases where followup letters had not been issued. Followup letters are the NPFC's primary tool in the cost recovery process prior to initiating legal action. It is, therefore, important to adhere to established time standards in issuing followup letters and seeking timely recovery of costs from responsible parties.

Implementation of Policies and Procedures

Policies and procedures established to ensure timely billing and recovery of cleanup costs were not being followed. We found significant delays in on-scene coordinators submitting the Financial Summary Report to NPFC, NPFC case officers preparing interim billings, and NPFC case officers following up after initial billings. These delays have been recognized by the NPFC for at least 2 years and we found little or no improvement in meeting established goals needed to improve cost recovery performance.

In a November 1994 memorandum to a Coast Guard District Commander, the Director of NPFC stated "Fundamentally, timely documentation is important because it allows us to bill responsible parties faster and eventually results in quicker cost recovery. The sooner that we are able to bill, the more likely that we will be able to collect. Plus, we save the significant interest that is lost on those Oil Spill Liability Trust Fund monies when recovery is delayed."

We interviewed case officers and found they do not consider themselves accountable for the submission of cost documentation or other information that would aid in recovering costs more timely. In addition, we did not find evidence of routine calls to on-scene coordinators to discuss the status of cost documentation when the 30

day elapsed time standard for submitting cost documentation was approaching or had been exceeded.

For example, a case officer did not respond to a dispute letter from a responsible party's attorney until the case officer received a response from the Marine Safety Office. The case officer waited over 16 months to hear from the Marine Safety Office and to respond to the responsible party's attorney. In another example, the case officer had not taken action to find out why a cleanup contractor had not been paid 7 months after the cleanup was completed. As a result, the responsible party could not be billed. In our opinion, a systematic and proactive approach involving all levels of management is needed to improve the timeliness of billing responsible parties and thereby recovering cleanup costs.

Cost Recovery

We found only \$3 million of \$19.4 million accumulated oil spill costs from FYs 1994 and 1995 had been recovered. We obtained the universe of all oil spill pollution cases opened during FYs 1994 through 1995. We refined the universe to include those cases where the Coast Guard would have the highest probability of billing in a timely manner (i.e., cases which were Coast Guard-administered and with an identified responsible party). We identified 658 of these cases for FYs 1994 and 1995.

According to the Coast Guard's data, the 658 cases represented total accumulated costs of \$101,513,559. One of these 658 cases represented \$82,114,444 of the \$101,513,559. Because this case was an exceptionally expensive spill, we eliminated the case from our calculation to fairly represent the Coast Guard's ability to recover costs. For the remaining \$19,399,115, we found the Coast Guard recovered costs of \$2,993,197.

Followup of Unbilled Cases

We followed up on 201 cases totaling \$15.5 million identified by the Coast Guard as unbilled accounts receivable at the end of FY 1995 to determine if the costs had been billed. As of April 30, 1996 (7 months later), we found 113 cases totaling \$7,988,989 remained unbilled. In addition, we found unbilled costs pertained to cases opened in FYs 1992 through 1995. For one case that we reviewed in detail the case officer informed us the billing was overlooked even though cost documentation was received in May 1995. The case officer anticipated billing the responsible party as soon as the costs were reconciled.

Recommendations

We recommend the Coast Guard:

1. Ensure policies and procedures are followed for billing responsible parties and recovery of oil spill costs. Require on-scene coordinators to submit Financial Summary Reports to NPFC within 30 days after completion of removal activities, and require NPFC case officers to prepare monthly interim billings, issue monthly followup billing letters, and followup with on-scene coordinators when cost documentation is not submitted timely.
2. Expedite the billing of \$8 million in accounts receivable that were unbilled as of April 30, 1996.

Management Response

The Coast Guard agreed with the finding and recommendations and stated new interim billing policies and procedures were implemented in August 1996. The new interim billing procedures require monthly billing on cases with unbilled costs of \$50,000 or more. When monthly billings are not possible, case teams report to management on the barriers that prevent them from billing. Case officers are to followup with Federal on-scene coordinators if documentation is not delivered within 30 days.

Of the \$8 million in unbilled receivables as of April 30, 1996, only \$3.5 million remained unbilled as of February 10, 1997. A total of \$2.7 million of the unbilled amount involve EPA monitored cases in which cost documentation has not been provided, or a responsible party had not been identified, or both. In cooperation with EPA, the Coast Guard anticipates billing the remaining unbilled amount by December 1997.

Audit Comments

We consider the actions taken and planned by the Coast Guard to be responsive to the finding and recommendations. The recommendations are considered resolved.

MAJOR CONTRIBUTORS TO THE REPORT

These individuals were major contributors to the report on Oil Spill Cleanup Procurements, U.S. Coast Guard.

Harry H. Fitzkee	Regional Manager
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U.S. Department
of Transportation

United States
Coast Guard



Memorandum

Subject: DRAFT DOTIG REPORT ON OIL SPILL CLEANUP
PROCUREMENTS

Date: 17 MAR 1997
7500

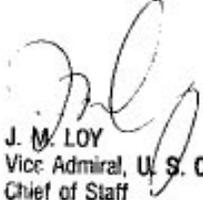
From: Commandant, U.S. Coast Guard

Reply to: G-CPM-1
Attn. of: B.LATVANAS
202-267-1166

To: Assistant Inspector General for Auditing

Ref: (a) DOTIG Draft Report of Jan 9, 1997

1. Enclosed you will find the Coast Guard response to the recommendations presented in reference (a).


J. M. LOY
Vice Admiral, U. S. Coast Guard
Chief of Staff

Encl: (1) Coast Guard response to DOTIG recommendations

STATEMENT ON DOTIG REPORT 6340013000

I. **TITLE:** Draft Report on Oil Spill Cleanup Procurements, U.S Coast Guard, dated 9 January 1997.

II. **FINDINGS:**

A. The Coast Guard needs to improve its policies, procedures, and practices for procurement of oil spill cleanup services. The U.S. Coast Guard **CONCURS** with the finding as stated.

B. The Coast Guard needs to improve its policies, procedures, and practices for recovery of oil spill cleanup costs from responsible parties. The U.S. Coast Guard **CONCURS** with the finding as stated.

III. **RECOMMENDATIONS:**

A(1). The Coast Guard should develop definitive uniform national contracting procedures. These procedures should: (a) establish goals or targets for the ordering agreement award process; (b) create a method to account for and track the processing of vendor offers; and (c) implement a process that provides a high level of assurance for determining a reasonable price range and ensuring prices offered by vendors above the reasonable price range are effectively negotiated. The U.S. Coast Guard **CONCURS-IN-PART** with this recommendation. Many improvements have already been made at the Maintenance and Logistics Command (MLC), Atlantic. Due to the efforts of many people, MLC Atlantic met its goal of tracking, negotiating, and awarding all of its new Basic Ordering Agreements (BOAs) by November 1996. All awards were made within a reasonable price range. In addition, reasonably priced BOA updates were issued as well. Similar results are expected to be achieved at MLC Pacific in the future. Also, four new billets (two Contracting Officers and two Storekeepers) were recently established at MLC Atlantic to help schedule, track, and achieve future BOA solicitation, award, and updating efforts at both MLCs. We will continue to strive toward the greatest level of uniformity practicable via discussion with both MLCs. Any permanent changes to current policy will be incorporated in the Coast Guard Acquisition Procedures (CGAP). However, local conditions, such as the need for unique "cooperative" BOAs in the Pacific area, and the emergency nature of many spills may demand different approaches. Projected completion date for developing a Coast Guard plan for national contracting procedures is 28 February 1998.

A(2). The Coast Guard should ensure compliance with the requirement for annual market surveys of oil spill cleanup contractors. The U.S. Coast Guard **CONCURS** with this recommendation. As a result of a task force temporarily assigned to this effort, great strides have already been taken at MLC Atlantic, which completed updating and award of new BOAs in November 1996. Continued corrective action is expected to be realized through four new job positions dedicated to the oil spill cleanup effort. After the hiring process is completed, these employees will be stationed at MLC Atlantic. However, these employees will also assist in completing MLC Pacific's annual surveys, as well. We expect completion of annual surveys at MLC Pacific by 28 February 1998.

B(1). The Coast Guard should ensure policies and procedures are followed for billing responsible parties and recovery of oil spill costs. The U.S. Coast Guard **CONCURS** with this recommendation. Starting in August 1996, the NPFC established and implemented new policies and procedures for interim billing. Cases with significant unbilled costs (\$50K or more) are identified and interim billed monthly when possible. When not possible, case teams report to management on the barriers that prevent them from billing. NPFC's standard operating procedures require case officers to follow up with Federal On-Scene Coordinators (FOSC) if cost documentation is not delivered within 30 days. Except for the largest cases, Coast Guard FOSCs generally submit documentation within 30-45 days of incident completion. A natural working group has been initiated to improve this process within the Coast Guard. The Environmental Protection Agency (EPA), however, has notified the NPFC that their FOSCs require a minimum of 90 days to process cost documentation [Attachment 1]. Nearly all of the large unbilled cases

are EPA cases for which the EPA FOSCs have not submitted cost documentation or investigated the identity of the responsible party. We expect to resolve this matter no later than 31 December 1997.

B(2). The Coast Guard should expedite the billing of \$8 million in accounts receivable that were unbilled as of 30 April 1996. The U.S. Coast Guard **CONCURS** with this recommendation. Of the \$8 million, \$3.5 million remains unbilled as of 10 February 1997. A total of \$2.7 million of this unbilled amount is for cases in which an EPA FOSC has not provided cost documentation or identified a responsible party or both. NPFC has contacted EPA FOSCs individually about these problems, and is escalating these issues to EPA management as necessary. We anticipate billing the remaining unbilled amount no later than 31 December 1997.



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

Darrell Neilly
Chief Financial Officer
National Pollution Funds Center
4200 Wilson Boulevard
Arlington, Virginia 22203

AUG 29 1996

OFFICE OF
SOLID WASTE AND EMERGENCY
RESPONSE

Dear Mr. Neilly:

This letter is in follow-up to a meeting held among members of our respective staffs on August 21, 1996. At that meeting EPA responded to NPFC's request that the time frame for submission of final cost documentation for EPA-lead oil spill removals be revised in the draft EPA/Coast Guard Memorandum of Understanding (MOU) for use of the Oil Spill Liability Trust Fund. Specifically, NPFC requested that the requirement for submission of cost documentation in the draft MOU be revised from 90-days after payment of final contractor invoice and/or payment of travel voucher, to no later than 45 days following completion of incident response activity. At the meeting EPA responded that the proposed change was unsatisfactory and committed to providing you a letter detailing the reasons why.

EPA cannot concur with the proposed change because, even if there were no delay in gathering and processing complete documentation, we anticipate that we would not be able to achieve the 45-day time frame on a consistent basis. In many instances, documentation which is required for cost reimbursement (contractor invoices, travel vouchers, etc.) has not been processed or paid within the time frame you proposed. Even if complete documentation were available immediately following the completion of response activity, the 45-day time frame does not allow adequate time for organizing the original documentation, reconciling this documentation with information in our financial management system, and making necessary corrections. This process requires coordination between EPA Regional program and finance offices, and the EPA Cincinnati Financial Management Center (CFMC).

EPA is committed to improving our processes for providing timely documentation of costs for oil spill response. To that end, we are developing Office of Emergency and Remedial Response (OERR) guidance for our OSCs that details procedures and requirements for cost documentation. Our goal is to provide an aggressive time frame that is reasonably attainable. Our guidance will indicate that OSCs must provide a complete cost documentation package to our CFMC within 10 days after payment of contractor invoice or travel voucher (or inform CFMC of why the 10-day time frame cannot be met and when the documentation will be

provided). This will allow a necessary period for cost reconciliation and accounting adjustments in order to provide NPFC with a final cost documentation package for reimbursement and cost recovery within 90 days.

It is my understanding that once the issue of an appropriate cost documentation time frame is resolved, we are prepared to move forward on a signature-ready draft of the MOU. We look forward to completion of this agreement. The MOU, along with accompanying guidance that we expect to issue, will provide us with an essential tool in order to improve our overall performance for consistent and timely submission of cost documentation.

If you have any questions or wish to discuss this further, please feel free to call me on 603-8707, or you may call Greg Weigel of the MOU Workgroup on 603-9058.



David Lopez, Director
Oil Program Center
Office of Emergency and Remedial Response

cc: Elaine Davies
Greg Weigel
Natalie Koch