



OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

**ISSUES IDENTIFIED DURING OUR  
EVALUATION OF INTERAGENCY  
AGREEMENT No. R13PG20058  
BETWEEN THE BUREAU OF  
RECLAMATION AND THE  
U. S. GEOLOGICAL SURVEY**




OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

SEP 30 2015

Memorandum

To: Jose Argon  
Associate Director, Office of Administration  
U.S. Geological Survey

From: Michael P. Colombo   
Regional Manager, Office of Audits, Inspections, and Evaluations

Subject: Management Advisory – Issues Identified During our Evaluation of Interagency Agreement No. R13PG20058 Between the Bureau of Reclamation and the U.S. Geological Survey  
Report No. WR-EV-BOR-0024-2013A

While evaluating interagency agreement No. R13PG20058 between the U.S. Geological Survey (USGS) and the Bureau of Reclamation (USBR), we identified issues with the rates USGS charges for its reimbursable services. Under the agreement, USGS provides USBR with water quality and monitoring services in the Upper Klamath and Lost River Basin. We found that USGS charges an administratively determined rate of 12 percent to cover its overhead costs for providing reimbursable services. This bureau-level overhead rate has not been revised since at least 2009 and does not reflect USGS' actual cost of providing service.

We conducted our evaluation from August to December 2013 in accordance with Quality Standards for Inspections and Evaluation. With respect to USGS' bureau-level overhead rate, the subject of this report, we limited our evaluation work to—

- reviewing USGS' billing support documentation under the agreement, evaluating USGS' bureau-level overhead rate calculations for fiscal years (FY) 2009 through 2013;
- interviewing USGS officials;
- reviewing the relevant sections of the Economy Act;<sup>1</sup> and
- reviewing the Government Accountability Office's (GAO) Principles of Federal Appropriation Law (Red Book).<sup>2</sup>

We believe the evidence obtained provides a reasonable basis for our finding and conclusion.

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<sup>1</sup> 31 U.S.C. § 1535(b)

<sup>2</sup> GAO-08-978SP Appropriations Law—Vol. III

## Background

USBR's agreement with USGS was made under the authority of the Economy Act. The Act requires that payments to USGS must be based on "the actual cost of goods or services provided." With respect to the allocation of indirect overhead costs under an Economy Act agreement, the GAO's Red Book states: "Payment is authorized 'at rates established by the servicing agency so long as they are reported to be based upon the cost of rendition of the service and do not appear to be excessive.'" The Red Book further states: "[a]s long as the amount agreed upon results from a *bona fide* attempt to determine the actual cost and, in fact, reasonably approximates the actual cost, the Economy Act is satisfied."<sup>3</sup>

USGS charges an administratively determined bureau-level overhead rate of 12 percent on its reimbursable activities, which includes its interagency agreement with USBR for water quality and monitoring services. This servicewide overhead rate is applicable to all USGS programs and activities, including reimbursable activities performed under contracts and agreements with Federal, State, and private entities. USGS has used the same 12 percent rate since at least FY 2009.

## Finding

In support of its 12 percent bureau-level overhead rate, USGS provided an analysis showing that the overhead rates for FYs 2009 through 2013 were higher than the billed rate, varying from a low of 12.9 percent to a high of 14.5 percent. USGS calculated these rates based only on appropriated funding and did not include the costs of its reimbursable activities. In addition, USGS' calculated its rates based on annual budgets rather than on actual costs incurred. Since USGS receives nearly one-third of its funding from reimbursable activities, we were concerned that an overhead rate based on all of USGS' activities (both appropriated and reimbursable) could be appreciably different from the current rate calculated by USGS.

We issued a Notification of Potential Finding and Recommendation notifying USGS of our preliminary findings regarding support of the bureau-level overhead rate. In its response, USGS recalculated its bureau-level overhead rate based on actual direct and indirect costs of all appropriated and reimbursable activities. As shown in Figure 1, the actual overhead rates were substantially different from the original USGS estimates, ranging from a low of 11.45 percent to a high of 12.06 percent.

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<sup>3</sup> GAO-08-978SP Appropriations Law—Vol. III, Page 12-42

<b>USGS Bureau Cost Rate Analysis (in millions)</b>						
	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Total</b>
<b>Appropriated Funding</b>	\$1,044	\$1,093	\$1,080	\$1,065	\$997	\$5,279
<b>Reimbursable Funding</b>	436	465	444	448	460	2,253
<b>Total Funding</b>	1,480	1,558	1,524	1,513	1,457	7,532
<b>Actual Overhead Rate</b>	11.74%	11.76%	11.64%	11.45%	12.06%	

Figure 1. Table of USGS' data and calculations for overhead rate based on direct and indirect costs for appropriated and reimbursable activities.

USGS concluded that the corrected rates shown above are in line with the overhead rate used during FYs 2009 through 2013 and that the current 12 percent bureau-level overhead rate is accurate. USGS envisions its rate as static, only to be adjusted when the difference reflects a variance of 1 percent or greater. USGS reported that it would use the recommendation of including total costs when analyzing the bureau-level overhead rate annually and update applicable internal policies and procedures accordingly.

While the corrected rates were closer to USGS' administratively determined rate than USGS originally reported, we cannot agree with USGS' conclusion that its current billing rate is accurate. As shown above, USGS' 12 percent billing rate exceeded its actual overhead rate in 4 out of the 5 years analyzed. The impact of using a static 12 percent overhead billing rate may not have greatly impacted individual agreements on a year-to-year basis, but the cumulative impact is significant. As shown in Figure 2, the variance between USGS' actual overhead rates and its administrative billing rate may have resulted in USGS overbilling entities by approximately \$6 million from FYs 2009 through FY 2013.

<b>Potential Over/Under Billed Overhead (in millions)</b>						
	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>Total</b>
<b>Billed Overhead Rate</b>	12.00%	12.00%	12.00%	12.00%	12.00%	
<b>Actual Overhead Rate</b>	11.74%	11.76%	11.64%	11.45%	12.06%	
<b>Rate Difference</b>	0.26%	0.24%	0.36%	0.55%	-0.06%	
<b>Reimbursable Funding</b>	\$436	\$465	\$444	\$448	\$460	
<b>Overhead Over/Under Bill</b>	1.13	1.12	1.60	2.46	(0.28)	\$6.04

Figure 2. OIG’s calculations showing USGS’ potential over and under billed overhead.

The \$6 million USGS potentially overbilled during this 5-year period represents a potential augmentation of USGS’ appropriations. GAO’s Red Book cautions against this possibility, stating: “agencies using the Economy Act must avoid the unauthorized augmentation of their appropriations. Charging too much augments the appropriations of the performing agency. Charging too little augments the appropriations of the ordering agency.”<sup>4</sup> Moreover, given that USGS’ reimbursable funding exceeds \$400 million annually, USGS’ plan to adjust its billing rate only if there is a variance of more than 1 percent could result in over or under billings exceeding \$4 million annually. We believe that USGS’ continued use of the 12 percent rate is not supported because it does not result in billings for reimbursable work that reasonably approximate the actual cost of providing service.

We discussed our finding and recommendation at an exit conference with USGS officials on September 2, 2015. USGS officials acknowledged our concerns and stated that USGS will consider implementing a running average Bureau-level overhead rate policy to address our recommendation.

### **Recommendation**

To ensure that its bureau-level overhead rate reflects its actual cost of providing service, we recommend that USGS implement a policy of recalculating and revising the overhead rate annually and charge that overhead rate on all interagency agreements and reimbursable activities.

<sup>4</sup> GAO-08-978SP Appropriations Law—Vol. III, Pages 12 – 38.

The annual calculations should be based on actual direct and indirect costs of all appropriated and reimbursable activities and take into account prior year over or under collections.

### **Response to Report**

Please respond to this management advisory by October 30, 2015. Your written response should provide detailed information on the actions you have taken, or plan to take, to address our recommendation, as well as target dates and titles of officials responsible for implementing these actions. Please address your response to me at:

U.S. Department of the Interior  
Office of Inspector General  
2800 Cottage Way  
Suite E-2712  
Sacramento, CA 95825

If you have any questions regarding this management advisory, please contact me at 916-978-5653.

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