



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

# EPA Needs to Continue to Improve Controls for Improper Payment Identification

Report No. 14-P-0171

April 10, 2014



Scan this mobile code to learn more about the EPA OIG.

## Report Contributors:

Heriberto Ibarra  
Janet Kasper  
Doug LaTessa  
Patrick McIntyre  
Mary Anne Strasser

## Abbreviations

AFR	Agency Financial Report
CDW	Compass Database Warehouse
CWSRF	Clean Water State Revolving Fund
CY	Calendar year
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal year
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PER	Program evaluation report
SOP	Standard operating procedure
SRF	State Revolving Fund

## Hotline

To report fraud, waste or abuse, contact us through one of the following methods:

**email:** [OIG\\_Hotline@epa.gov](mailto:OIG_Hotline@epa.gov)  
**phone:** 1-888-546-8740  
**fax:** 1-202-566-2599  
**online:** <http://www.epa.gov/oig/hotline.htm>  
**write:** EPA Inspector General Hotline  
1200 Pennsylvania Avenue, NW  
Mailcode 2431T  
Washington, DC 20460

## Suggestions for Audits or Evaluations

To make suggestions for audits or evaluations, contact us through one of the following methods:

**email:** [OIG\\_WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov)  
**phone:** 1-202-566-2391  
**fax:** 1-202-566-2599  
**online:** [http://www.epa.gov/oig/contact.html#Full\\_Info](http://www.epa.gov/oig/contact.html#Full_Info)  
**write:** EPA Inspector General  
1200 Pennsylvania Avenue, NW  
Mailcode 2410T  
Washington, DC 20460



# At a Glance

## Why We Did This Review

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), as modified by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires that each fiscal year the Inspector General of each agency determine whether the agency is in compliance with the law. In addition, the Office of Management and Budget (OMB) requires that Inspectors General evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing improper payments.

Our audit focused on the U.S. Environmental Protection Agency's (EPA's) compliance with IPERA because OMB's draft implementation guidance states IPERIA requirements are not effective until fiscal year 2014.

### This report addresses the following EPA theme:

- *Embracing EPA as a high performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:  
[www.epa.gov/oig/reports/2014/20140410-14-P-0171.pdf](http://www.epa.gov/oig/reports/2014/20140410-14-P-0171.pdf)

## ***EPA Needs to Continue to Improve Controls for Improper Payment Identification***

### What We Found

The EPA was compliant with IPERA for the fiscal year 2013 reporting of improper payments. However, EPA regional offices were not following State Revolving Fund (SRF) standard operating procedures nor completing all required fields of the transaction testing worksheet. We found several errors and inconsistencies in the EPA's process for collecting data on improper payments. These errors and inconsistencies raise concerns regarding the accuracy of improper payments reported.

**EPA's fiscal year 2013 Agency Financial Report reported inaccurate information for the SRF and grant payment streams.**

The EPA also did not accurately report its recovery of SRF improper payments in the Agency Financial Report. No formal mechanism exists to track improper payment recovery through transaction testing for the Office of Water. During the audit, the EPA verified that \$722,831 of overpayments was repaid by states between March and July 2013. Thus, the EPA was not accurately reporting the recovery of improper payments.

The EPA understated the improper payments for grants in the fiscal year 2013 Agency Financial Report by \$16,086 because the accounts receivable and disallowed costs were not reconciled prior to reporting improper payments.

### Recommendations and Planned Corrective Actions

We recommend that the Assistant Administrator for Water coordinate with regions to address where differences occurred between improper payment testing and improper payments reported in the Agency Financial Report. In addition, we recommend providing regional staff with the current transaction testing worksheet and directions for completing the worksheet and require regional staff to review a sample of large negative draws to identify improper payments. We further recommend that a system be established for tracking the recovery of improper payments, and that disallowed costs in the compliance database be reconciled with accounts receivable in the financial system. The agency concurred with all of the recommendations and provided corrective actions and estimated completion dates.

### Noteworthy Achievements

The EPA took substantial corrective actions during fiscal year 2013 to bring the agency back into compliance with IPERA. The EPA improved its testing of the SRF program by conducting statistical sampling of transactions, which resulted in a more accurate improper payment rate.



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

THE INSPECTOR GENERAL

April 10, 2014

**MEMORANDUM**

**SUBJECT:** EPA Needs to Continue to Improve Controls for Improper Payment Identification  
Report No. 14-P-0171

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

**TO:** Maryann Froehlich, Acting Chief Financial Officer

Nancy Stoner, Acting Assistant Administrator  
Office of Water

Craig E. Hooks, Assistant Administrator  
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

The offices responsible for implementing the audit recommendations include the Office of Water's Office of Ground Water and Drinking Water and Office of Wastewater Management; the Office of Administration and Resources Management's Office of Grants and Debarment; and the Office of the Chief Financial Officer's Office of Financial Management and Las Vegas Finance Center.

**Action Required**

In responding to the draft report, the agency provided a corrective action plan for addressing the recommendations with milestone dates. Therefore, a response to the final report is not required. The agency should track corrective actions not implemented in the Management Audit Tracking System. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Kevin Christensen, acting Assistant Inspector General for Audit, at (202) 566-1007 or [christensen.kevin@epa.gov](mailto:christensen.kevin@epa.gov); or Janet Kasper, Director, Contracts and Assistance Agreements Audits, at (312) 886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

# Table of Contents

## Chapters

<b>1</b>	<b>Introduction .....</b>	<b>1</b>
	Purpose .....	1
	Background .....	1
	Responsible Offices .....	2
	Noteworthy Achievements.....	2
	Scope and Methodology.....	2
<b>2</b>	<b>Improved Controls Needed to Identify and Report SRF Improper Payments.....</b>	<b>5</b>
	Guidance for Identifying and Reporting Improper Payments .....	5
	Errors and Inconsistencies Noted in Process for Collecting Data .....	6
	Regional Offices Need to Follow EPA Guidance.....	8
	Recommendations .....	8
	Agency Comments and OIG Evaluation.....	9
<b>3</b>	<b>EPA Needs to Track Recovery of SRF Improper Payments.....</b>	<b>10</b>
	EPA Policy Requires Receivables to Be Recorded in Financial Systems... ..	10
	EPA Did Not Accurately Report Recovery of Overpayments .....	10
	Recommendation .....	11
	Agency Comments and OIG Evaluation.....	11
<b>4</b>	<b>EPA Needs to Reconcile Grant Reporting Systems Prior to Issuing AFR .....</b>	<b>12</b>
	Guidance for Grant Improper Payment Reporting.....	12
	EPA Did Not Reconcile Its Databases Prior to Issuance of AFR .....	13
	Improved Process Needed in Compiling Improper Payments.....	14
	Recommendation .....	14
	Agency Comments and OIG Evaluation.....	14
	<b>Status of Recommendations and Potential Monetary Benefits.....</b>	<b>15</b>

## Appendices

<b>A</b>	<b>Agency Response to Draft Report .....</b>	<b>16</b>
<b>B</b>	<b>Distribution .....</b>	<b>19</b>

# Chapter 1

## Introduction

### Purpose

The objective of the audit was to evaluate the U.S. Environmental Protection Agency's (EPA's) compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). However, we limited our assessment to the EPA's compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

### Background

IPERA requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments.<sup>1</sup> The act significantly increased requirements for payment recapture efforts by expanding the types of payments that must be reviewed and lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs.

Annually, Inspectors General should evaluate (1) the accuracy and completeness of agency reporting, and (2) agency performance in reducing and recapturing improper payments. Also, Inspectors General are required to determine whether agencies are in compliance with IPERA. Compliance means that the agency has met the following requirements:

- Published an Agency Financial Report (AFR) for the most recent fiscal year and posted it on the agency website.
- Conducted a program-specific risk assessment (if required).
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments (if required).
- Published programmatic corrective action plans (if required).
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments.
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

---

<sup>1</sup> The Office of Management and Budget defines "significant" as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

## Responsible Offices

The offices responsible for implementing the audit recommendations include:

- The Office of Water's Office of Ground Water and Drinking Water and Office of Wastewater Management.
- The Office of Administration and Resources Management's Office of Grants and Debarment.
- The Office of the Chief Financial Officer's (OCFO's) Office of Financial Management and Las Vegas Finance Center.

## Noteworthy Achievements

The EPA took substantial corrective actions during fiscal year (FY) 2013 to bring the agency back into compliance with IPERA. The EPA improved its testing of the State Revolving Fund (SRF) program by conducting statistical sampling of transactions, which resulted in a more accurate improper payment rate.

## Scope and Methodology

We conducted this audit from December 2013 through February 2014 in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was to evaluate the EPA's compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). However, Office of Management and Budget's (OMB) draft guidance on the implementation of IPERIA states that the requirements were not effective until FY 2014. Since EPA relied upon the guidance from OMB, it did not implement all the requirements of IPERIA in 2013. Therefore, we limited our assessment to EPA compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). We will evaluate the EPA's implementation of IPERIA in 2014.

To determine whether the EPA complied with IPERA, we reviewed the EPA's FY 2013 AFR and accompanying materials. For each payment stream, we reviewed the internal control review workpapers from the Office of Inspector General (OIG) audit of the FY 2013 financial statements. We interviewed agency staff at the EPA headquarters from the OCFO, the Office of Grants and Debarment, and the Office of Water. We also interviewed OCFO staff from the Research Triangle Park and Las Vegas Finance Centers.

We gained an understanding of the processes, procedures and controls used for IPERA reporting across the four payment streams—SRF, grants, commodities and contracts. We traced judgmental samples of reported improper payments from each payment stream back to source documentation to test the accuracy of improper payments reporting in the EPA’s FY 2013 AFR.

- For the SRF payment stream, we identified the universe of all draws with a negative value from October 1, 2011, to September 30, 2012, and judgmentally selected a sample of the six highest valued draws for review, worth a total of \$32,723,118. This review was performed to look for transactions that the EPA did not report as improper payments.
- Also for the SRF payment stream, we traced judgmental samples of reported improper payments to source documentation to test the accuracy of improper payments reporting in the EPA’s FY 2013 AFR. For the Clean Water State Revolving Fund (CWSRF), we judgmentally selected the two states (Rhode Island and North Carolina) with the largest reported improper payment amounts, which resulted in testing 91.6 percent of the \$1 million reported as CWSRF improper payments. We also judgmentally selected the two states (California and Texas) with the largest amounts of Drinking Water State Revolving Fund (DWSRF) improper payments reported, which resulted in our testing 95.2 percent of the \$11.1 million of improper payments.
- We judgmentally selected six of 25 reported grant improper payments. We selected the largest improper payments amounts by category. The sample accounted for \$193,406 of \$365,463 of unallowed costs identified as improper payments, or 53 percent of the EPA’s reported grant improper payments for calendar year 2012.
- We selected all contract improper payments greater than \$800 and verified that the sample group contained at least one sample from each of the detection sources. The resulting sample size was 14 payments totaling \$404,090, representing 99.3 percent of contract improper payments.
- For commodities, we selected all improper payments greater than \$1,000 and verified that the sample group contained at least one sample from each detection source. The resulting sample size was 27 improper payments totaling \$132,513, or 84.5 percent of the total reported improper payments for commodities.

In addition to selecting a sample of transactions reported as improper payments, we also reviewed a judgmentally selected sample of program evaluation reports (PERs) and transaction testing worksheets provided by the EPA to confirm the accuracy and legitimacy of the improper payments. We also reviewed grant



accounts receivable for receivables that were the result of improper payments and compared this information with the EPA's FY 2013 AFR.

We used information from several EPA data systems during our work, including the Integrated Grants Management System (compliance database), Contract Payment System, Small Purchase Information Tracking System, and Compass Data Warehouse. We verified the information in the systems to source documentation and concluded that the information provides a reasonable basis for our findings and conclusions.

### ***Prior Audit Coverage***

During the current audit, we followed up on agency corrective actions from the EPA OIG Report No. 13-P-0175, *Corrective Action Plan Needed in Order to Fully Comply With the Improper Payments Elimination and Recovery Act*, issued March 11, 2013. We found that all actions had been taken.

Section 5 of IPERIA provides for the implementation of the do not pay initiative. In December 2012, The OIG completed its review of the EPA's implementation of the do not pay requirements outlined in IPERIA. Our review did not identify any material weaknesses in EPA's controls as they are being currently implemented.

## Chapter 2

### Improved Controls Needed to Identify and Report SRF Improper Payments

The EPA needs to improve controls for identifying and reporting improper payments for the SRF payment stream. An improper payment includes any payment that should not have been made or was made in an incorrect amount. We found that:

- The improper payment data collection process contained several errors and inconsistencies.
- Information reported in transaction testing worksheets did not always match improper payment information reported in the AFR.

The EPA's standard operating procedure (SOP) for SRF programs states that the EPA regional offices identify improper payments in the PER. The SOP also contains a transaction testing worksheet that regional offices are to complete when testing transactions. Regional offices were not following the EPA's SOP nor completing all required fields of the transaction testing worksheet. Also, misunderstandings over what constituted an improper payment led to reporting errors. The errors and inconsistencies we identified raise concerns regarding the accuracy of the improper payments reported and the EPA's controls to identify improper payments for the SRF payment streams.

#### Guidance for Identifying and Reporting Improper Payments

IPERA's definition of an improper payment includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients. OMB Memorandum M-11-16 further identifies an improper payment as any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

The EPA's SOP for SRF programs states that regions identify the improper payment in the PER. The PER should include the date, amount and grant number of all cash draws tested, the portion to be improper (and why), and the corrective action planned or taken. The SOP includes a transaction testing worksheet that regional offices should complete when testing transactions.

## Errors and Inconsistencies Noted in Process for Collecting Data

We found several errors and inconsistencies in the EPA’s process for collecting data on improper payments in the SRF payment streams. For example, three of the four regional PERs reviewed where the EPA identified improper payments did not identify information required by the EPA’s SOP:

- The Texas DWSRF PER did not mention improper payments, although the EPA identified numerous improper payments via transaction testing.
- In North Carolina, the CWSRF PER stated that improper payments were identified, but did not report the value of improper payments nor identify the specific transactions that contained improper payments.
- In the Rhode Island CWSRF PER, neither the grant number nor the improper payment associated with each tested transaction was identified, although the total value of improper payments was identified.

The EPA’s transaction testing worksheets—used by regional offices to document regional review of cash draws—were not being used, contained inconsistencies, and did not answer all questions. Regions also used different versions of the worksheets. Differences existed between what was identified in transaction testing worksheets and what the EPA reported as an improper payment in the AFR. For example:

- The CWSRF transaction testing worksheets for North Carolina did not identify an improper payment, although the EPA included a \$217,000 improper payment for North Carolina in its estimate of total improper payments for the CWSRF program. During our review, the EPA agreed this was not an improper payment.
- Improper payments reported in the EPA’s FY 2013 AFR for Texas differed from improper payments identified by Region 6 on transaction testing worksheets. The Office of Water identified additional improper payments after conducting a review of Region 6’s transaction testing for the DWSRF program.

We identified over \$30 million in improper payments by reviewing negative cash draws listed in Compass, as shown in OIG Table 1. These negative cash draws were refunds of a previous erroneous cash draw. The EPA did not report these amounts as improper payments.

**OIG Table 1: Improper payments discovered by reviewing negative cash draws**

State	Improper payment amount
Florida	\$12,050,224
Florida	12,050,224
Florida	6,373,122
<b>Total</b>	<b>\$30,473,570</b>

Source: OIG analysis.

We found two improper payment reporting errors:

- AFR Table 1 overstated improper payments due to the \$217,000 error in North Carolina identified. This error represented 21 percent of total improper payments identified through statistical sampling for the CWSRF program, and therefore resulted in revisions to the error rate and improper payments reported in AFR Table 1. See OIG Table 2 for adjusted improper payment percentages.
- In ARF Table 1, the EPA reported the over- and underpayments for the DWSRF program based on the results of statistical sampling rather than the extrapolated overpayments and underpayments.

OIG Table 2 below shows the values as reported in AFR Table 1 and the correct values. The numbers crossed out are the incorrectly reported numbers and the numbers below are the correct numbers.

**OIG Table 2: Revisions to AFR Table 1**

Program	FY 2013 Improper Payment Percent	FY 2013 Improper Payment Percent	FY 2013 overpayment	FY 2013 underpayment
CWSRF	<del>.73%</del>	<del>\$15.6</del>	<del>\$11.1</del>	<del>\$4.5</del>
	.68%	\$14.7	\$9.7	\$5.0
DWSRF	<del>4.06%</del>	<del>\$55.2</del>	<del>\$10.0</del>	<del>\$1.4</del>
	No Change	No Change	\$49.7	\$5.5

Source: FY 2013 AFR and OIG analysis.

In AFR Table 4, the EPA incorrectly reported the months outstanding for both CWSRF and DWSRF overpayments based on the cash draw date rather than when the overpayment was identified via transaction testing. OIG Table 3 below shows the corrected values for AFR Table 4. The numbers crossed out are the incorrectly reported numbers and the numbers below those crossed-out numbers are the correct numbers.

**OIG Table 3: Revisions to AFR Table 4**

Program	0-6 months	6 months – 1 year	Over 1 year
CWSRF	<del>\$0</del>	<del>\$0</del>	<del>\$1,025,022</del>
	\$808,022	\$0	\$0
DWSRF	<del>\$0</del>	<del>\$0</del>	<del>\$4,898,804</del>
	\$65,955	\$4,832,849	\$0

Source: FY 2013 AFR and OIG analysis.

## Regional Offices Need to Follow EPA Guidance

Improper payments for the SRF programs were inaccurately reported for several reasons:

- EPA regions did not follow the EPA's SOP regarding the reporting of improper payments in annual PERs, nor did they complete all required fields of the transaction testing worksheet.
- Differences of opinion between EPA regional and headquarters staff resulted in errors in the EPA's reporting of improper payments. The Office of Water headquarters' review of regional transaction testing worksheets resulted in identifying additional improper payments.
- Draws for a negative amount were not included in the transaction testing sample. The EPA selected transactions for sampling based on a statistical sample, and no negative draws were included in the sample. There was no requirement for regions to consider negative draws as an indicator of a previous overpayment.
- An oversight by EPA staff resulted in the errors made to the extrapolated overpayments and underpayments to AFR Table 1. For AFR Table 4, EPA staff calculated the months outstanding based on the cash draw date rather than the identification date of the overpayments.

As a result of not following established controls in the process of identifying and reporting improper payments information, the SRF payment streams in the EPA's AFR were misstated.

## Recommendations

We recommend that the Assistant Administrator for Water:

1. Coordinate with those regions where differences occurred between the identification of improper payments in the transaction testing worksheets and reporting in the AFR to address issues that created inconsistency for future reviews.
2. Provide regional staff the current transaction testing worksheet and directions for completing the worksheet.
3. Require regional staff to review a sample of large negative draws to identify improper payments. If those transactions are not selected via statistical sampling, ensure regional staff include the negative draws in the supplemental reviews.

## Agency Comments and OIG Evaluation

The EPA agreed with the recommendations. In response to recommendation 1, the Office of Wastewater Management and the Office of Ground Water and Drinking Water will continue to work with the EPA regions to ensure improper payment reporting is accurate and well documented. In response to recommendation 2, the Office of Water provided the most current transaction testing worksheet to all regions on October 30, 2013. In response to recommendation 3, the Office of Ground Water and Drinking Water will investigate the five largest negative draws, which will be reported as improper payments if the negative draw is a correction of an improper payment. The Office of Ground Water and Drinking Water will also require regions to review at least the five largest draws, up to 10 percent of the universe of transactions in the future. The Office of Wastewater Management will require regions to review all negative draws and to report all improper payments for all state annual reviews remaining to be conducted this fiscal year. In future fiscal years, the Office of Wastewater Management will require regions to review all negative draws or, at a minimum, the largest five draws. The OIG believes the agency's actions, and the implementation of future actions, should address the recommendations.

# Chapter 3

## EPA Needs to Track Recovery of SRF Improper Payments

The EPA did not accurately report SRF improper payment recovery in the FY 2013 AFR. The EPA identified one combined CWSRF and DWSRF outstanding amount in FY 2012 but did not identify how much of this amount was still to be recovered for each SRF program in the FY 2013 AFR. According to OCFO policy, all debts and accounts receivable must be recorded in the agency financial system upon receipt of the documents establishing the debt or accounts receivable. However, the SRF payment stream did not follow this policy and a formal mechanism to track the recovery of improper payments identified through transaction testing did not exist. During the audit, the EPA verified that \$722,831 of overpayments was repaid by states between March and July 2013. This amount should have been reported as recovered in the AFR. As a result, the EPA was not accurately reporting the recovery of improper payments.

### EPA Policy Requires Receivables to Be Recorded in Financial Systems

OCFO Policy Number 2540-9-P1 states that all debt/accounts receivable must be recorded in the agency financial system upon receipt of the documents establishing the debt/accounts receivable. Upon accurate entry of the appropriate data, the financial system automatically generates the accounting transactions needed to initiate the debt/accounts receivable process. Subsidiary records must be maintained that include the basis for the debt/accounts receivable, all administrative actions regarding the debt/accounts receivable, and the final disposition. Changes in the status of debt/accounts receivable, including appeals and any decisions on appeals, must be recorded promptly in the financial system.

### EPA Did Not Accurately Report Recovery of Overpayments

The EPA did not accurately record amounts recovered from improper payments in AFR Table 2. The EPA reported the following information (OIG Table 4) regarding recoveries of improper payments for the SRF payment streams.

**OIG Table 4: SRF-identified recoveries – FY 2012**

Program	Amount identified for recovery – current year	Amount recovered – current year
CWSRF	\$1,025,022	\$0
DWSRF	10,032,644	5,133,840

Source: FY 2013 AFR.

The EPA reported no recoveries for the CWSRF program even though more than half of the funds had been recovered during FY 2013. When the EPA identifies an overpayment in the CWSRF program, it requests the recipient to adjust the amount of its next draw of federal funds by the amount of the overpayment. During the audit, the EPA verified that \$722,831 of overpayments was repaid by states between March and July 2013. This amount should have been reported as recovered in the AFR.

Improper payment recoveries for prior years were also not accurately recorded in AFR Table 2 for the SRF payment streams. In the column “Amounts Identified for Recovery (PYs),” the EPA indicated an “n/a” for both the CWSRF and DWSRF programs. The EPA reported the SRFs as one program in the FY 2012 AFR as opposed to separate programs (CWSRF and DWSRF) in the FY 2013 AFR. The FY 2012 AFR identified \$3,525,136 as the combined amount outstanding.

The EPA should have reported the amounts collected and the receivable amount in the FY 2013 AFR. However, the EPA did not have a formal mechanism to track the recovery of overpayments identified through transaction testing. While these are amounts owed to the EPA and meet the definition of accounts receivable, the EPA did not record grant offsets as accounts receivable. As a result, the EPA may not be ensuring that overpayments are offset by future cash draws.

## **Recommendation**

We recommend that the Chief Financial Officer and the Assistant Administrator for Water:

4. Establish a system for tracking the recovery of improper payments.

## **Agency Comments and OIG Evaluation**

The EPA agreed with the recommendation. The Office of Water will revise the transaction testing SOPs to include a process for tracking the recovery of improper payments and maintain a tracking spreadsheet of all recoveries, including the origination of accounts receivable for excess funds not offset or returned to the EPA. The revised SOP will be distributed to the region in July 2014. The OIG believes the agency’s actions, when implemented, should address the recommendation.



## **Chapter 4**

### **EPA Needs to Reconcile Grant Reporting Systems Prior to Issuing AFR**

The EPA understated the grants payment stream improper payments in the FY 2013 AFR. EPA policy states originating offices are required to forward all action documents that establish a debt/accounts receivable to the appropriate finance center, which enters the information into the EPA's financial system (Compass). Interim guidance also requires the grants management offices to ensure the compliance database is accurate and complete to report improper payments. A \$488,275 variance between the Integrated Grants Management System (compliance database) and the Compass Database Warehouse (CDW) database was not reconciled prior to issuance of the AFR. Once we brought this variance to the EPA's attention, it reconciled the databases and identified a \$16,086 understatement of improper payments in the AFR. Without reconciling these databases, concern exists about the reliability and integrity of improper payment reporting for the grants payment stream.

#### **Guidance for Grant Improper Payment Reporting**

EPA OCFO Procedure 1, Billing and Collecting, states the originating office makes the initial determination that an amount is owed to the EPA (debt/accounts receivable), prepares the applicable initial billing document, and forwards all action documents that establish a debt/accounts receivable to the appropriate finance center within 5 business days of receipt.<sup>2</sup> In addition, Office of Grants and Debarment's interim guidance states:

- Grants management offices are to ensure recording of the final improper payment amounts and audit and review closed dates in the compliance database once the Las Vegas Finance Center issues a bill and the grants office has received a copy of the bill.
- The National Policy, Training and Compliance Division is responsible for checking the compliance database for accuracy and completeness to report improper payments. The division also verifies that questioned and disallowed costs recorded in the compliance database are consistent with the actual compliance report and written decisions.

---

<sup>2</sup> Policy Number 2540-9-P1, Billing and Collecting (4/13/2011).

## EPA Did Not Reconcile Its Databases Prior to Issuance of AFR

The EPA did not reconcile a discrepancy between the compliance and CDW databases prior to issuance of the agency’s FY 2013 AFR. The compliance database is the primary information source for reporting improper payments for the grants payment stream. We identified a \$488,275 difference between improper payments reported in the AFR and the CDW database, as shown in OIG Table 5.

**OIG Table 5: Variance between EPA’s FY 2013 AFR report and CDW database**

Calendar year (CY) 2012 improper payments reported in FY 2013 AFR report		
Activity category	Category total	Total
Grant enforcement actions – AFR Table 6	\$127,461	
Grant OIG and single audits – AFR Table 6	173,866	
Grant adjustments – AFR Table 6	944,136	
Grants-other – AFR Table 6	236,168	
Improper payments (unallowable costs) – Figure A	64,136	
<b>Total reported in AFR report</b>		<b>\$1,545,767</b>
CY 2012 improper payments identified by category in CDW database		
Activity category	Category total	Total
Disallowed costs – other than A-133 and OIG audits (Compass Category 77)	\$5,406	
Grant refunds non-audit (Compass Category 32) Less: appeal/suspension	911,173	
A-133 and OIG audits (Compass Category 12) Less: appeal/suspension	134,692	
Grant refunds – closed (Compass Category 25)	6,221	
<b>Total reported in CDW database</b>		<b>1,057,492</b>
<b>Variance between AFR report and CDW</b>		<b>\$488,275</b>

Source: OIG analysis of EPA’s FY 2013 AFR and CDW database.

Based on our draft analysis, the OCFO performed a reconciliation to determine the nature and cause for the variance. After reconciling the variance, the OCFO provided the following reconciling items:

- The OCFO decided to report a CY 2013 improper payment of \$236,168 in CY 2012 although the improper payment fell outside the reporting period.<sup>3</sup>
- Timing differences from when actions occur and are recorded in the compliance and CDW databases, and when improper payments are identified and reported, accounted for \$125,865 of the variance.
- Coding issues, such as not removing the “suspension code” identifier, resulted in \$96,174 of the difference.

<sup>3</sup> For the grants payment stream, the EPA reports improper payments identified in the previous calendar year.

- Offsets prior to issuance of a final determination letter were not recorded in CDW but were reported as improper payments in the AFR and were \$35,077 of the variance.
- Grant management personal did not report \$11,076 in disallowed costs to the OCFO for recording, tracking and collection.

The reconciliation resulted in identifying a \$16,086 understatement of grant payment stream improper payments in the EPA's FY 2013 AFR.

## **Improved Process Needed in Compiling Improper Payments**

The EPA did not compare the CY 2012 disallowed costs reported in the compliance database to the CY 2012 accounts receivable reported in CDW—the EPA's financial reporting system—prior to issuing the FY 2013 AFR. The OCFO provided data to the Office of Administration and Resources Management's Office of Grants and Debarment to review in determining improper payments for the grants payment stream, but that data was incomplete and as a result, not fully reconciled to the compliance database. As a result, the EPA understated improper payments by \$16,086 for the grants payment stream in the FY 2013 AFR. Controls are strengthened by reconciling the compliance database and the CDW database and concern about the reliability and integrity of improper payment reporting will be reduced for the grants payment stream.

## **Recommendation**

We recommend that the Assistant Administrator for Administration and Resources Management and the Chief Financial Officer:

5. Incorporate the reconciliation of the compliance database disallowed costs and the CDW database accounts receivable into the process of identifying and reporting improper payments for the grants payment stream.

## **Agency Comments and OIG Evaluation**

The EPA agreed with the recommendation. The Office of Administration and Resources Management and OCFO will ensure reconciliation of databases prior to submittal of future improper payment reports. The OIG believes the agency's actions, when implemented, should address the recommendation.

## **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	8	Coordinate with those regions where differences occurred between the identification of improper payments in the transaction testing worksheets and reporting in the AFR to address issues that created inconsistency for future reviews.	O	Assistant Administrator for Water	09/30/2014		
2	8	Provide regional staff the current transaction testing worksheet and directions for completing the worksheet.	C	Assistant Administrator for Water	10/30/2013		
3	8	Require regional staff to review a sample of large negative draws to identify improper payments. If those transactions are not selected via statistical sampling, ensure regional staff include the negative draws in the supplemental reviews.	O	Assistant Administrator for Water	09/30/2014		
4	11	Establish a system for tracking the recovery of improper payments.	O	Chief Financial Officer and Assistant Administrator for Water	07/31/2014		
5	14	Incorporate the reconciliation of the compliance database disallowed costs and the CDW database accounts receivable into the process of identifying and reporting improper payments for the grants payment stream.	O	Assistant Administrator for Administration and Resources Management and Chief Financial Officer	09/30/2014		

<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

## **Agency Response to Draft Report**

(Received March 27, 2014)

**MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Report/  
Project No. OA – FY14-0072  
“EPA Needs to Continue to Improve Controls for Improper Payment  
Identification”

**FROM:** Nancy K. Stoner /s/ *Original Signed By Michael Shapiro for:*  
Acting Assistant Administrator

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

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the U.S. Environmental Protection Agency’s overall position, along with its position on each of the report recommendations. For the report recommendations with which the agency agrees, we have provided high-level intended corrective actions and estimated completion dates.

**AGENCY’S OVERALL POSITION**

The Agency agrees with the Office of Inspector General’s overall position on strengthening the identification and reporting of improper payments and has taken appropriate steps to incorporate OIG recommendations.

**AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS**

**Agreements**

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by FY
1	Coordinate with those regions where differences occurred between the identification of improper payments in the transaction testing worksheets and reporting in the AFR to address issues that created inconsistency for future reviews.	The Office of Wastewater Management (OWM) and the Office of Ground Water and Drinking Water (OGWDW) will continue to work with the Regions to ensure improper payment reporting is accurate and well documented.	Results of the review of FY13 improper payments will be reported to OCFO in the SRF EOY reports.

2	Provide regional staff the current transaction testing worksheet and directions for completing the worksheet	OW has provided the most current transaction testing worksheet to all Regions	Complete. Sent to Regions on 10/30/13
3	Require regional staff to review a sample of large negative draws to identify improper payments. If those transactions are not selected via statistical sampling, ensure regional staffs include the negative draws in the supplemental reviews.	<p>OGWDW chose the 5 largest negative payments and requested Regions to investigate the reason for these negative draws. They will be reported as improper payments if the negative draw is a correction of an improper payment.</p> <p>The OGWDW will also require Regions to review negative draws in the future. The number will be determined based on the number of sample draws to be tested and the universe of DWSRF negative draws for that year. It will consist of at least the 5 largest draws, up to 10% of the universe of transactions.</p> <p>For the CWSRF State Annual Reviews remaining to be conducted this fiscal year, OWM will require Regions to review all negative draws and to report all improper payments.</p> <p>In future fiscal years, OWM will require Regions to review all negative draws or, at a minimum, the 5 largest draws. The determination on the number of negative draws the Regions will be required to review will be based on the total number of negative draws each fiscal year.</p>	<p>Complete. OGWDW sent the transactions to be reviewed to the Regions on 3/6/14.</p> <p>Results of the review of FY13 negative draws will be reported to OCFO in the SRF EOY reports.</p>

4	Establish a system for tracking the recovery of improper payments.	OW will revise the Transaction Testing standard operating procedures to include a process for tracking the recovery of improper payments and maintain a tracking spreadsheet of all recoveries, including the origination of an accounts receivable for excess funds not offset or returned to EPA.	The revised standard operating procedure will be distributed to the Regions in July 2014.
5	The AA of Office of Administration and Resources Management and the CFO, incorporate the reconciliation of the compliance database disallowed costs and the CDW database accounts receivable into the process of identifying and reporting improper payments for the grants payment stream.	OARM and OCFO will ensure reconciliation of databases prior to submittal of future improper payment reports.	A reconciliation of the databases will be conducted by September 30, 2014

CONTACT INFORMATION

If you have any questions regarding this response, please contact Sheila Platt on (202) 564-0686 with the CWSRF or Howard Rubin (202) 564-2051 with the DWSRF.

Attachments

cc: Mike Shapiro, Deputy Assistant Administrator of Water  
 Andrew Sawyers, PhD, Director, Office of Wastewater Management  
 Peter Grevatt, Director, Office of Groundwater and Drinking Water  
 Howard Corcoran, Director, Office of Grants and Debarment  
 Stefan Silzer, Acting Director, OFS OCFO  
 Jeanne Conklin, Acting Director, OFM OCFO  
 Marilyn Ramos, Office of Water  
 Michael Mason, Office of Water

## ***Distribution***

Office of the Administrator  
Chief Financial Officer  
Assistant Administrator for Water  
Assistant Administrator for Administration and Resources Management  
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  
Principal Deputy Assistant Administrator for Water  
Principal Deputy Assistant Administrator for Administration and Resources Management  
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 Policy and Resources Management, Office of Administration and  
Resources Management  
Deputy Director, Office of Policy and Resources Management, Office of Administration and  
Resources Management  
Audit Follow-Up Coordinator, Office of the Chief Financial Officer  
Audit Follow-Up Coordinator, Office of Water  
Audit Follow-Up Coordinator, Office of Administration and Resources Management