



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Special Report

EPA Needs to Reexamine How It Defines Its Payment Recapture Audit Program

Report No. 11-P-0362

July 19, 2011

Report Contributors:

Janet Kasper
Madeline Mullen

Abbreviations

EPA	U.S. Environmental Protection Agency
FY	Fiscal year
IPERA	Improper Payments Elimination and Recovery Act
OIG	Office of Inspector General
OMB	Office of Management and Budget

Hotline

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1200 Pennsylvania Avenue NW
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Washington, DC 20460



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

In November 2010, the Office of Management and Budget (OMB) required all agencies to submit a payment recapture audit plan describing current payment recapture efforts. The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), was required to review the action plan and provide feedback to EPA.

Background

Each year the federal government loses billions of dollars on improper payments to individuals, organizations, and contractors. Therefore, agencies are required to have a cost-effective program of internal controls to prevent, detect, and recover overpayments.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2011/20110719-11-P-0362.pdf

EPA Needs to Reexamine How It Defines Its Payment Recapture Audit Program

What We Found

EPA makes numerous efforts to recapture improper payments, but does not consider its activities to be a formal payment recapture audit program, as defined by OMB guidance. A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. In its January 2011 submission to OMB, EPA stated that it did not have a formal payment recapture audit program. However, based on the OMB guidance issued in April 2011 and information EPA had previously submitted to OMB, we determined that many of the activities EPA already conducts meet the definition of a payment recapture audit program.

We reviewed EPA's improper payments methodology and found three areas where all improper payment efforts were not quantified for the Improper Payments Elimination and Recovery Act submission to OMB and the fiscal year 2010 Agency Financial Report. These areas involved contract cost issues identified by the Defense Contract Audit Agency, costs questioned identified during Agency post-award grant reviews, and costs questioned in OIG and Single Audit reports. EPA can use funds collected under a payment recapture audit program to reimburse itself for payment recapture work and fund future financial improvement programs.

What We Recommend

We recommend that EPA report the results of all activities, including audits the OIG and other audit organizations conduct, when reporting on its payment recapture audit program in 2011. During a March 29, 2011, meeting with EPA, Agency staff agreed and stated that all sources of improper payment information would be reported in compliance with OMB guidance. In response to the draft report, EPA concurred with our recommendation and identified corrective actions that will be completed by November 15, 2011. EPA's response adequately addresses the report findings and recommendations.



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

THE INSPECTOR GENERAL

July 19, 2011

MEMORANDUM

SUBJECT: EPA Needs to Reexamine How It Defines
Its Payment Recapture Audit Program
Report No. 11-P-0362

FROM: Arthur A. Elkins, Jr.
Inspector General

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is written over the printed name.

TO: Barbara J. Bennett
Chief Financial Officer

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

The estimated direct labor and travel costs for this report are \$31,099.

Action Required

In accordance with EPA Manual 2750, we are closing this report on issuance in our tracking system. The agreed-to milestones for each recommendation are required to be tracked in the Management Audit Tracking System until the corrective actions are complete. While a formal response to the final report is not required, we request that you provide us with documentation of the policies and procedures that you prepare and issue in response to this report. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist at (202) 566-0899 or heist.melissa@epa.gov, or Janet Kasper at (312) 886-3059 or kasper.janet@epa.gov.

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Purpose

The Office of Management and Budget's (OMB's) memorandum, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, November 16, 2010, required all agencies to submit a payment recapture audit plan. The plan was to describe current payment recapture efforts pre-dating the 2010 Improper Payments Elimination and Recovery Act (IPERA) as well as planned new recapture efforts. Agencies were to submit plans to OMB and each agency's inspector general by January 14, 2011. Each Office of Inspector General (OIG) was to review the action plan and provide feedback to the agency. This report provides our feedback to the U.S. Environmental Protection Agency (EPA) regarding its January 14, 2011, submission.

Background

The IPERA of 2010 became law on July 22, 2010. It amended the Improper Payments Information Act of 2002. IPERA requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments. The Act also significantly increased requirements for payment recapture efforts by expanding the types of payments that can be reviewed and lowering the threshold of annual outlays that require agencies to conduct payment recapture audit programs.

IPERA defined an improper payment as any payment that should not have been made or that was made in an incorrect amount, or any payment to an ineligible recipient, for an ineligible good or service, a duplicate payment, payment for a good or service not received, or a payment that does not account for credit for applicable discounts. OMB guidance added to the improper payment definition those payments that agencies are unable to discern whether they are proper as a result of insufficient documentation.

According to OMB guidance, an improper payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. The program includes policies and activities such as prepayment reviews, a requirement that all relevant documents be made available before making payments, and post-award audits. For agencies that expend more than \$1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost effective.

OMB's November 2010 memorandum included directions for submitting plans to OMB that describe their payment recapture audit programs. For agencies that did not have payment recapture audit programs, the guidance required that agencies list all potential program and activity areas that could be reviewed by payment recapture auditors under IPERA's expanded authorities, including newly created and existing programs and activity areas. The OMB memo also expanded the

requirements for what types of improper payments are to be included in the annual financial report. Agencies are to report on improper payments:

- Voluntarily returned by contractors
- Used to offset future payments
- Identified and returned to the agency through OIG efforts, such as audits, reviews, or tips from the public
- Identified and recovered through management post-payment reviews and close-out.

Scope and Methodology

Our work performed does not constitute an audit under *Government Auditing Standards* because our purpose was limited to review and comment on EPA's January 14, 2011, IPERA submission. We analyzed EPA's fiscal year (FY) 2010 improper payments reporting that was included in the OMB submission and the FY 2010 Agency Financial Report. We limited our review to assessing the completeness of the information that was included in the OMB submission and Agency Financial Report. To accomplish this, we interviewed EPA Headquarters staff in the Office of the Chief Financial Officer (OCFO) and reviewed supporting documentation. Although our review was limited to an assessment of the methodology for accumulating data on improper payments, we plan to analyze EPA's FY 2011 Agency Financial Report for improper payments in greater detail. We conducted our work from January to June 2011.

EPA Needs to Expand What It Considers a Payment Recapture Audit Program

EPA makes numerous efforts to recapture improper payments, but does not consider its activities to be a formal payment recapture audit program as defined by OMB guidance. A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. In its January 2011 submission to OMB, EPA stated that it did not have a formal payment recapture audit program. However, based on the OMB guidance issued in April 2011 and information EPA had previously submitted to OMB, we determined that many of the activities EPA already conducts meet the definition of a payment recapture audit program. We believe that these activities should be included as part of its formal program. We also found three areas where all improper payment efforts were not quantified for the IPERA submission and the FY 2010 Agency Financial Report.

EPA's IPERA submission described a strong program of internal reviews and controls which could be considered part of a payment recapture recovery audit program. EPA reviews and analyzes accounting and financial records, supporting documentation, and other pertinent information within grants, contracts, and State Revolving Fund activities. EPA's program includes:

- Contract invoice reviews
- Defense Contract Audit Agency audits of large contracts
- Post-award reviews (baseline and advanced monitoring) of grants
- State revolving funds transaction testing
- OMB Circular A-123 reviews of payroll, travel, and purchase cards

Since EPA conducts such activities and, as a result, identifies and recaptures overpayments, we believe that EPA’s activities should be included as part of its formal program. EPA can use funds collected under a payment recapture audit program for several purposes:

- Reimburse the actual expenses of the payment recapture audit services
- Establish a financial management improvement program that ensures actions are taken to address the problems that directly contributed to the improper payments
- Spend monies for activities related to the original purpose of the funds.

We reviewed EPA’s improper payments methodology and found three areas where all improper payment efforts were not quantified for the IPERA submission and the FY 2010 Agency Financial Report, as shown in table 1.

Table 1: Additional activities that meet definition of payment recapture audit program

EPA area	Comments
Contracts & Commodities	Defense Contract Audit Agency audits were not included. According to EPA's FY 2010 Agency Financial Report for the period October 1, 2009, through September 30, 2010, EPA achieved final action on 20 Defense Contract Audit Agency audits. The funds recovered from these audits were not considered part of potential payment recapture audit activities.
Grants	Only non-profits were included, so improper payments that EPA found and documented for tribes, state and local governments, and universities were not reported. Also, OIG financial audit and Single Audit sustained costs were not reported with the other improper payments.
State Revolving Funds	Sustained costs identified through single audits were not included.

Source: OIG review of EPA's January 14, 2011, submission to OMB.

We believe that all improper payments detected through EPA efforts, and reports EPA receives regarding improper payments from audit organizations, meet the definition of a payment recapture audit program and should be reported in the Agency Financial Report in order to comply with the Improper Payment Information Act. OMB’s November 2010 guidance specifically identifies improper payments from OIG audits and agency post-award reviews as having to be included in the Agency Financial Report. During a March 29, 2011, meeting with EPA, Agency staff agreed with our analysis and stated that all sources of

improper payment information would be reported in compliance with the April 2011 OMB guidance.

Recommendation

1. We recommend that the Chief Financial Officer report the results of all activities, including audits the OIG and other audit organizations conduct, when reporting on its payment recapture audit program in 2011.

Agency Response and OIG Comments

EPA agreed with our recommendation. The response divides the recommendation into three separate actions that will address:

- Defense Contract Audit Agency audits
- Post-award grant review questioned costs
- OIG and Single Audit report results

EPA plans to implement all corrective actions by November 15, 2011, which is when the next Agency Financial Report is due. The response addresses the recommendation and provides a timeframe for completing the actions.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Actual/Planned Completion Date	Claimed Amount	Agreed-To Amount
1	4	Report the results of all activities, including audits the OIG and other audit organizations conduct, when reporting on its payment recapture audit program in 2011.	O	Chief Financial Officer	11/15/2011		

¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U = recommendation is undecided with resolution efforts in progress

Agency Response

JUL - 1 2011

MEMORANDUM

SUBJECT: Response to the Office of Inspector General's Draft Special Report: EPA Needs to Reexamine How It Defines Its Payment Recapture Audit Program, Project No. OA-FY11-0123, dated June 6, 2011

FROM: /s/ Barbara J. Bennett
Chief Financial Officer

TO: Arthur A. Elkins, Jr.
Inspector General

Thank you for providing us with the opportunity to comment on and respond to the findings and recommendations made in the "Draft Special Report: EPA Needs to Reexamine How It Defines Its Payment Recapture Audit Program." We have reviewed the draft report and attached is our proposed plan for response. Additionally, we request closure upon issuance of your final report.

If you have any questions concerning the audit response, please contact Stefan Silzer, Director, Office of Financial Management at (202) 564-5389 or Steve Erickson of the Financial Policy and Planning Staff at (202) 564-1780.

Attachment

cc: Maryann Froehlich
Melissa Heist
Joshua Baylson
Janet Kasper
Stefan Silzer
Howard Corcoran
John Bashista
Raffael Stein
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Melvin Visnick
Jeanne Conklin
Lisa Maass
Meshell Jones-Peeler
Dale Miller
Madeline Mullen
Steven Erickson
Stephen Daniels
Samuel Peterson
Howard Rubin
Sheila Platt

OCFO'S Response to OIG Draft Report
 "EPA Needs to Reexamine How It Defines Its Payment Recapture Audit Program"
 Project No. OA-FY11-0123, dated June 6, 2011

Rec. No.	OIG Recommendation	Action Official (s)	Proposed Action	Proposed Completion Date
1.1	Report the results of improper payment efforts involving contract cost issues identified by the Defense Contract Audit Agency.	OARM/OAM	<p>EPA concurs with this recommendation. The Defense Contract Audit Agency (DCAA) audits are an important tool and information source. However, except in limited instances, DCAA audits address the costs claimed in the incurred cost submission and not the amounts billed and paid.</p> <p>EPA will report DCAA audit efforts in the Agency Financial Report (AFR) that result in amounts over and under billed by the contractor.</p>	11/15/2011
1.2	Report the results of improper payment efforts involving costs questioned that have been identified during agency post-award grant reviews.	OARM/OGD	EPA concurs with this recommendation. Questioned costs determined to be improper payments that are identified during all post-award grant reviews will be reported in the AFR, including state and local governments, tribes, and universities.	11/15/2011
1.3	Report the results of improper payment efforts involving costs questioned in Office of Inspector General (OIG) and Single Audit reports.	OARM/OGD, OW	EPA concurs with this recommendation. Questioned costs determined to be improper payments that are identified through OIG audits and state Single Audit reports will be reported in the AFR.	11/15/2011

Distribution

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Director, Office of Acquisition Management, Office of Administration and Resources Management

Director, Office of Grants and Debarment, Office of Administration and Resources Management

Audit Followup Coordinator, Office of the Chief Financial Officer