



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act to Improve Operations

Report No. 09-P-0232

September 15, 2009



Report Contributors:

Patrick Gilbride
Erin Barnes-Weaver
Karen L. Hamilton
Bryan Holtrop
Alicia Mariscal
Mary Anne Strasser

Abbreviations

| | |
|--------|---|
| BOSC | Board of Scientific Counselors |
| EPA | U.S. Environmental Protection Agency |
| FMFIA | Federal Managers' Financial Integrity Act |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| GPRA | Government Performance and Results Act |
| IRIS | Integrated Risk Information System |
| NHEERL | National Health and Environmental Effects Research Laboratory |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| ORD | Office of Research and Development |
| PART | Program Assessment Rating Tool |

Cover photo: A photo montage of EPA Office of Research and Development National Health and Environmental Effects Research Laboratory facilities geographically dispersed across the United States (EPA photos).



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) Office of Research and Development (ORD) fully integrated the Federal Managers' Financial Integrity Act (FMFIA) into program operations. We asked whether ORD has a systematic strategy to establish, review, and monitor internal controls, and what ORD's strategy should contain to account for risks in meeting program goals.

Background

FMFIA requires federal managers to improve the accountability and effectiveness of federal programs by establishing, assessing, correcting, and reporting on internal control. FMFIA also requires federal managers to annually evaluate their agencies' compliance with Government Accountability Office (GAO) internal control standards.

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

To view the full report, click on the following link:
www.epa.gov/oig/reports/2009/20090915-09-P-0232.pdf

EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act to Improve Operations

What We Found

ORD's management integrity program is inconsistent with Agency FMFIA guidance. ORD approaches FMFIA as an administrative reporting activity rather than an opportunity to evaluate and report on research program performance. As a result, ORD has not:

- Conducted a comprehensive risk assessment,
- Included National Program Directors in the FMFIA process,
- Developed and implemented a strategy to establish and evaluate the effectiveness of internal controls over research programs,
- Provided FMFIA training to managers and staff, and
- Included relevant risk and program performance information in assurance letters.

EPA Order 1000.24 requires all organizations to systematically review and assess the effectiveness of internal controls consistent with GAO internal control standards. The Order gives program managers flexibility in designing review strategies. While ORD's largest lab, the National Health and Environmental Effects Research Laboratory (NHEERL), informally identifies program risks, neither ORD nor NHEERL conducts internal control risk assessments on which to base a program review strategy. Applying FMFIA as intended would help EPA achieve its mission and program results through improved accountability.

ORD's Administrative Efficiencies Project management integrity workgroup has initiated actions that we believe will address our findings, such as developing a draft multi-year review strategy. In developing its new strategy, ORD should include programmatic elements, a training plan, pertinent results from peer reviews, and best practices to ensure more effective FMFIA implementation.

What We Recommend

We recommend that ORD (1) conduct a risk assessment using GAO standards and develop a comprehensive risk-based program review strategy; (2) develop comprehensive, tiered FMFIA training for managers and staff; and (3) revise its management integrity program to include programmatic operations. ORD agreed with our recommendations and has initiated corrective actions that we believe address the intent of our recommendations.



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

OFFICE OF
INSPECTOR GENERAL

September 15, 2009

MEMORANDUM

SUBJECT: EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act to Improve Operations Report No. 09-P-0232

FROM: *Melissa M. Heist*
Melissa M. Heist
Assistant Inspector General for Audits

TO: Lek Kadeli
Acting Assistant Administrator
Office of Research and Development

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

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$515,790.

Action Required

On September 4, 2009, your office provided comments to our report that included a corrective action plan with milestone dates. We believe your planned corrective actions address the intent of each of our recommendations. As such, we plan to close this assignment upon issuance of this final 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>.

We appreciate the efforts of your staff in working with us during the course of our audit. If you or your staff has any questions regarding this report, please contact me at (202) 566-0899 or heist.melissa@epa.gov; or Patrick Gilbride, Director, Risk and Program Performance Issues, at (303) 312-6969 or gilbride.patrick@epa.gov.

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Chapter 1

Introduction

Purpose

The Office of Inspector General (OIG) reviewed implementation of the Federal Managers' Financial Integrity Act (FMFIA) within the Office of Research and Development (ORD), the scientific research arm of the U.S. Environmental Protection Agency (EPA). We sought to determine whether ORD fully integrated FMFIA into programmatic operations. We examined ORD using its largest lab, the National Health and Environmental Effects Research Laboratory (NHEERL), as our example. Our objectives were to determine:

- Whether ORD has a systematic strategy to establish, review, and monitor internal controls.
- What ORD's internal control strategy should contain to account for risks in meeting program goals.

Background

EPA's Office of Research and Development

ORD is EPA's lead office for the production, review, and integration of scientific and technical knowledge into environmental protection policies and regulations. ORD has seven laboratories and centers across the country, with ORD headquarters in Washington, DC, and main research facilities in Ohio and North Carolina. NHEERL is ORD's largest individual laboratory, accounting for 21 percent of ORD's Fiscal Year (FY) 2008 budget and 33 percent of its authorized full-time staff. NHEERL has division and field office laboratories in eight locations and ecological environments across the country.

To provide the leadership to accomplish ORD's strategic goals, ORD created an Executive Council, consisting of senior management, to make corporate decisions. ORD instituted a strategic multi-year planning process to guide the direction of ORD's research to focus on EPA's highest priority science needs. National Program Directors lead development of multi-year plans with involvement by staff and managers. There are no direct lines of authority between National Program Directors and lab, center, and office directors as both positions report to the Assistant Administrator. ORD confirms the relevancy and credibility of its science through program reviews by the Board of Scientific Counselors (BOSC). ORD aligned BOSC reviews to meet the structure of reviews conducted under the Office of Management and Budget (OMB) Program Assessment Rating Tool (PART).

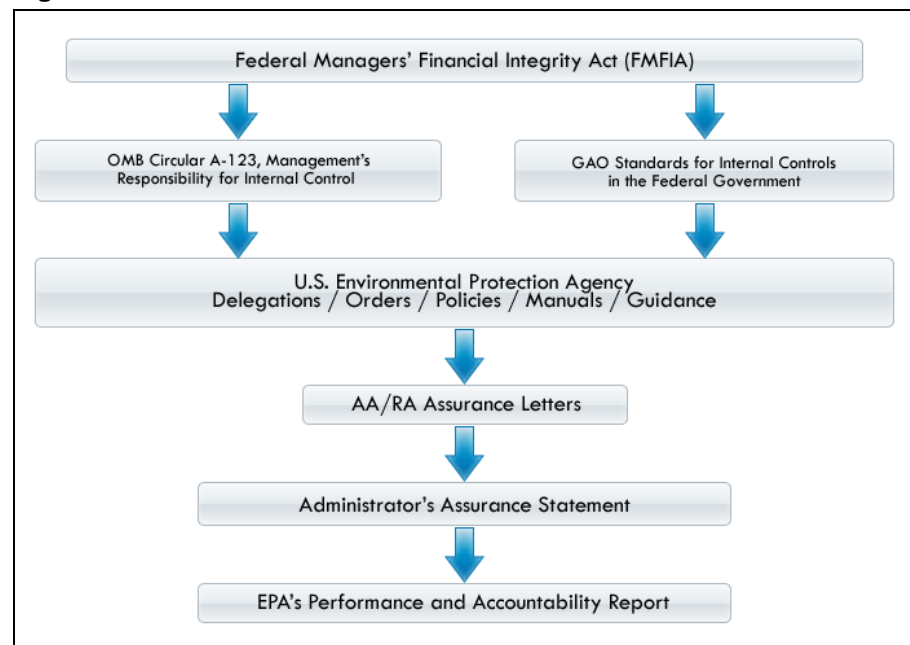
ORD issued a policy in November 2006 on how ORD implements FMFIA. ORD's Assistant Administrator has responsibility for implementing FMFIA. Additional responsibilities lie with lab and center directors and deputy directors. An ORD Management Integrity Advisor coordinates activities such as the assurance letter process. The Advisor works with designated Management Integrity Coordinators within ORD's seven labs and centers. According to ORD's policy, National Program Directors do not have a role in the management integrity process. See Appendix A for more details on ORD's organizational structure.

Management Integrity Guidance

FMFIA requires federal managers to improve the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control. Federal managers must also develop and maintain internal control to achieve: (1) effective and efficient operations; (2) reliable financial reporting; and (3) compliance with applicable laws and regulations per OMB Circular A-123, *Management's Responsibility for Internal Control* (revised). Effective internal control is a key factor in achieving agency missions and program results.

The Federal Government has implemented several initiatives, such as the *Government Performance and Results Act of 1993* (GPRA) and PART, to improve program management. Activities conducted as part of these initiatives support an agency's overall internal control framework. Figure 1.1 illustrates how FMFIA serves as an umbrella under which agencies should coordinate internal control efforts.

Figure 1.1: FMFIA Internal Control Framework



Source: EPA training, *EPA Internal Control and Management Integrity: Make It Second Nature*, issued (via EPA's Intranet) on May 28, 2008 (slide 11 of 21).

FMFIA requires federal managers to annually evaluate their agency's compliance with Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, shown in Table 1.1, and issue a statement indicating full compliance or noncompliance. The standards provide the overall framework for establishing and maintaining internal controls, and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. The standards comprise a major part of managing an organization.

Table 1.1: GAO's *Standards for Internal Control in the Federal Government*

| | |
|---------------------------------------|--|
| Control Environment | This standard establishes and maintains an environment throughout the organization that sets a positive and supporting attitude toward internal control and conscientious management. This includes establishing goals, objectives, and performance measures at the entity and activity level. |
| Risk Assessment | Once the goals, objectives, and measures have been defined, the risks that could impede efficiently and effectively achieving those objectives are identified. This includes assessing risks the agency faces from both internal and external sources. Risk assessment includes identifying and analyzing risks associated with achieving objectives defined in strategic and annual performance plans developed under GPRA, and form a basis for determining how to manage risks. Management needs to comprehensively identify risks and should consider all significant interactions between the entity and other parties as well as internal factors at both the entity-wide and activity levels. |
| Control Activities | These are the policies, procedures, techniques, and mechanisms that implement management's direction to achieving goals. Internal control activities help ensure that management's directives are carried out. |
| Information and Communications | This standard includes data and information (performance and financial) to determine whether the organization meets its goals and objectives and maintains accountability over resources. |
| Monitoring | Internal control monitoring should assess the quality of performance over time and ensure that audits and other review findings are promptly resolved. |

Source: OIG's Summary of GAO's *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (November 1999).

To implement FMFIA and OMB Circular A-123, EPA issued Order 1000.24, *Management's Responsibility for Internal Control*. The Order:

- Prescribes policies, procedures, and standards for internal controls at EPA;
- Outlines Agency senior managers' roles and responsibilities for developing, implementing, assessing, documenting, improving, and reporting on internal controls;
- Incorporates specific requirements for assessing internal controls over financial reporting; and
- Provides tools to help managers monitor both overall program progress and the effectiveness of day-to-day operations.

In accordance with the Order, the Office of the Chief Financial Officer (OCFO) issues annual guidance to program and regional offices on complying with FMFIA. This guidance includes a reporting template with specific instructions for completing assurance letters. Assurance letters provide the results of the internal control assessment and an overall statement to the Administrator on the adequacy of controls for the organization. In 2008 OCFO also developed an Intranet training to increase understanding of internal controls, titled *EPA Awareness Training for Internal Controls and Management Integrity*, although OCFO did not mandate that all EPA staff complete the course. OCFO annually collects all program and regional office assurance letters and compiles a single draft assurance letter for the Administrator to review and sign.

EPA's Order also requires managers to develop and implement a strategy that defines how they use sources of program management information to provide the basis for their annual assurance letters. The systematic review strategy should be consistent with and integrate Agency-wide processes used to develop and report on program performance measures and results required under GPRa. Examples of sources of program management information include: OIG and GAO reports, internal and external program evaluations, audits and reviews conducted under the *Chief Financial Officers Act* and GPRa, PART, and other reviews. The Order recommends that program managers use GAO's five internal control standards when developing a review strategy as the basis for determining the need for and design of an internal control and how well it functions.

EPA also issued a 1996 publication, *Management Integrity at EPA - A Manager's "How To" Guide for Program Reviews: Seeing the Forest and the Trees*. The guide introduced the Agency's 10 management integrity principles and noted that managers often miss the essence of internal controls and FMFIA:

In complying with FMFIA, many Federal managers historically never saw the "Big Picture." Most focused on filling out checklists and performing other routine compliance tests, rather than considering management controls in light of broader program issues and EPA's overall mission. In short, they got lost in the trees and never saw the forest!

Noteworthy Achievements

ORD re-engineered its management integrity function through its Administrative Efficiencies Project. This effort focused on improving administrative and financial internal controls, including how ORD might conduct a formal risk-based assessment of those controls. This effort's management integrity workgroup is also considering a separate "scientific" or programmatic track for assessing internal control.

ORD engaged the National Academy of Sciences to evaluate its research program effectiveness in a report, *Evaluating Research Efficiency in the U.S. Environmental Protection Agency* (published in 2008), which significantly altered the dialogue and approach to efficiency measurement.

ORD and NHEERL undergo many external peer reviews to maintain a high level of credibility. The Science Advisory Board reviews the quality and relevance of scientific and technical information used or proposed as the basis for Agency regulations. BOSC evaluates and reviews scientific research programs, plans, and laboratories (and related management practices) and recommends improvement actions. Since FY 2008, NHEERL has conducted management systems reviews in lieu of traditional divisional reviews as a cost saving effort.

Scope and Methodology

We conducted our audit from July 2008 through April 2009 in accordance with generally accepted government auditing standards. 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 objectives.¹ We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We focused our evaluation on ORD's headquarters office in Washington, DC, and NHEERL facilities located in Raleigh, North Carolina, and Corvallis and Newport, Oregon. We reviewed and analyzed EPA and ORD management integrity policies, procedures, and FMFIA guidance; ORD's budget and expenditure data; and FYs 2007 and 2008 FMFIA assurance letters. We interviewed ORD and NHEERL personnel at various levels of responsibility. We conducted site visits to NHEERL and its Western Ecology Division, including tours of several laboratories. We benchmarked risk assessment methods used by others in the public sector, as well as the FMFIA process at eight other federal agencies. We reviewed NHEERL-related internal/external peer reviews to determine the extent to which they addressed internal controls. Appendix B provides additional information on our scope and methodology.

¹ In the course of performing our field work, we identified findings applicable outside of ORD-NHEERL. In February and March 2009 we expanded our field work to include reviewing assurance letters and FMFIA processes in four regions and two program offices. In August 2009, we issued a report to OCFO on the Agency's management integrity program, summarizing examples from the regions and program offices we reviewed.

Chapter 2

Opportunities Exist for ORD to Better Use the FMFIA Process to Improve Programmatic Operations

ORD's management integrity program is inconsistent with Agency FMFIA guidance. Currently, ORD approaches FMFIA as an administrative reporting activity rather than an opportunity to evaluate and report on research program performance. As a result, ORD has not:

- Conducted a comprehensive risk assessment,
- Included National Program Directors in the FMFIA process,
- Developed and implemented a strategy to establish and evaluate the effectiveness of internal controls over research programs,
- Provided FMFIA training to managers and staff to assess program performance, and
- Included relevant risk and program performance information in assurance letters.

EPA Order 1000.24 requires all organizations to systematically review and assess the effectiveness of internal controls consistent with GAO internal control standards. The Order gives program managers flexibility in designing review strategies. While NHEERL, ORD's largest lab, informally identifies program risks, neither ORD nor NHEERL conducts internal control risk assessments on which to base a program review strategy. Applying FMFIA as intended would help EPA achieve its mission and program results through improved accountability.

Management Integrity Program Inconsistent with FMFIA Guidance

ORD Has Not Conducted a Comprehensive Internal Control Risk Assessment

ORD has not conducted a formal risk assessment for identifying and analyzing risks for possible effects in program operations. OMB Circular A-123 states that managers should perform risk assessments to identify significant areas within which to place or enhance internal control. The Circular describes risk assessment as a critical step in the process to determine the extent of controls.

While ORD has not assessed risk, NHEERL and its Western Ecology Division have informally assessed their program risks, as shown in Table 2.1.

Table 2.1: Program Risks

| Identified Program Risks | NHEERL | Western Ecology Division |
|--|--------|--------------------------|
| 1. Inability to quickly respond to changing priorities. | X | X |
| 2. Imbalance of breadth and depth in research program. | X | X |
| 3. Difficulty in building/maintaining research collaborations. | X | X |
| 4. Inability to meet commitments in face of declining resources. | X | X |
| 5. Inadequate safeguards to ensure that Agency decisions are supported by the highest quality science. | X | X |
| 6. Unclear priorities. | | X |
| 7. Mismatch of skill mix. | | X |
| 8. Difficulty in building and maintaining partnerships with program offices and regions. | | X |

Source: NHEERL and Western Ecology Division presentations to OIG in November 2008.

NHEERL conducts quality assurance, peer review, and accountability reviews that it believes address three of the five risks identified. However, NHEERL identified these risks based on management's judgment subsequent to initiating these reviews and did not assess the effectiveness of internal controls.

ORD Does Not Include National Program Directors in the FMFIA Process

ORD's process to evaluate risks and assign priority does not involve National Program Directors. These directors lead development of ORD's multi-year plans that tie to the strategic plan and EPA's mission, so internal control risk assessments should focus on impediments to multi-year plans. Some of the directors we interviewed said that individual lab research priorities did not necessarily align with multi-year plan priorities. Further, even though directors play a significant role in directing and ensuring that ORD achieves its mission, ORD has not involved them in evaluating internal controls, implementing the management integrity program, or preparing FMFIA assurance letters.

Lab and center directors told us ORD should involve National Program Directors in the FMFIA process but were unsure how to do so given ORD's matrix structure. This structure separates program performance aspects such as PART and GPRA from FMFIA and provides no clear link between required annual reports. EPA Order 1000.24 addresses program managers' responsibility for internal controls, including GPRA performance measures. The Order also specifies that any review strategy be consistent with Agency processes for GPRA reporting.

ORD's organizational structure sets boundaries for what National Program Directors can do in regards to implementing research assigned to lab and center directors. While National Program Directors develop research plans, reviews, and budgets, they do not oversee day-to-day operations including spending and staffing. Without additional involvement, National Program Directors cannot evaluate a research program's internal controls. In our interviews, directors

described difficulties encountered while managing their research programs, such as limited access to information on funding spent against the budget and staff time charges to research programs. They also indicated they could benefit from improved communication and coordination with labs, centers, and offices to ensure consensus on prioritizing, implementing, and managing research programs.

ORD Has Not Developed a Program Review Strategy

ORD has not developed a strategy to systematically review and assess the effectiveness of internal control for program operations. EPA Order 1000.24 states that program managers should develop a strategy for systematically reviewing and assessing the effectiveness of internal controls; detecting weaknesses and deficiencies; and providing a sound, documented basis for the assurance letter to the Administrator. OCFO's FY 2008 management integrity guidance requires that annual assurance letters describe the organization's review strategy for assessing how well internal controls over program operations (guidance, procedures, and policies) protect against fraud, waste, abuse, and mismanagement.

ORD managers annually require labs and centers to design a review strategy that meets program needs and conduct internal control reviews. However we did not find any evidence that these activities took place for research programs. Our interviews with ORD and NHEERL staff, as well as our review of ORD's and NHEERL's FY 2008 assurance letters, confirmed this. ORD states in its FY 2008 assurance letter that "ORD conducted more than 38 management reviews of the following areas: extramural (assistance agreements, interagency agreements, contracts, simplified acquisitions), purchase cards, property, funds control and flexiplace." Management reviews focused on administrative and financial activities, not program operations.

ORD managers agreed that their FY 2008 assurance letter did not discuss a program review strategy or describe how it reviewed principal research programs. ORD stated it believed "Examples exist in the assurance letter of how ORD approached the review of some of its programs, for example the approach for addressing the Agency's (and ORD's) Biofuels Strategy." However ORD did not base this process on a comprehensive risk assessment, did not report on internal control effectiveness, and may not have provided a sound basis for the Assistant Administrator to assert compliance with FMFIA.

In August 2008, ORD organized a management integrity workgroup as part of its Administrative Efficiencies Project. ORD charged this workgroup with developing a plan for conducting a management integrity line of business as an ORD-wide function. ORD said the workgroup will coordinate various programs that support management integrity into standard ORD operating principles. We reviewed ORD's draft strategy and do not believe that it addresses programmatic controls.

ORD Relies on Limited OCFO Guidance

ORD relies on OCFO guidance that does not focus on program operations for reporting internal controls. Further, ORD did not change the composition of its assurance letter between 2007 and 2008 to reflect changes in OCFO guidance. OCFO's FY 2008 guidance:

- Required a more rigorous review of the Agency's internal controls against GAO's *Standards for Internal Control in the Federal Government*.
- Required offices to document their approach to programmatic internal control reviews in assurance letters.
- Included an *Internal Control Evaluation Checklist* as an attachment to provide a basis on which to evaluate internal controls and to use the checklist to assess the effectiveness of programmatic internal controls.

OCFO believed its FY 2008 guidance improved reporting on internal control effectiveness of program operations. However, the OCFO letter template focused on administrative and financial reporting.² ORD did not follow any strategy or report additional information on internal controls beyond what OCFO specified in its template.

ORD staff told us they found OCFO's 2008 guidance confusing in several areas. For example, staff could not discern whether ORD should report the occurrence or results of program reviews. Staff also said OCFO's guidance was not specific and did not always tie in to EPA Order 1000.24.

ORD's lab and center Management Integrity Coordinators rely on FMFIA guidance disseminated by ORD after it receives OCFO's annual guidance. However, ORD did not disseminate all guidance it received from OCFO in FY 2008. ORD did not disseminate the checklist until OCFO initiated its FY 2009 assurance letter process; 83 percent of Management Integrity Coordinators interviewed said they had not seen the checklist before this year. We also noted that OCFO's FY 2008 guidance and ORD's assurance letter contained the subject heading *Internal Control Review Strategy* while NHEERL's assurance letter did not, because the guidance ORD provided to labs and centers did not include that subject heading as a reporting requirement.

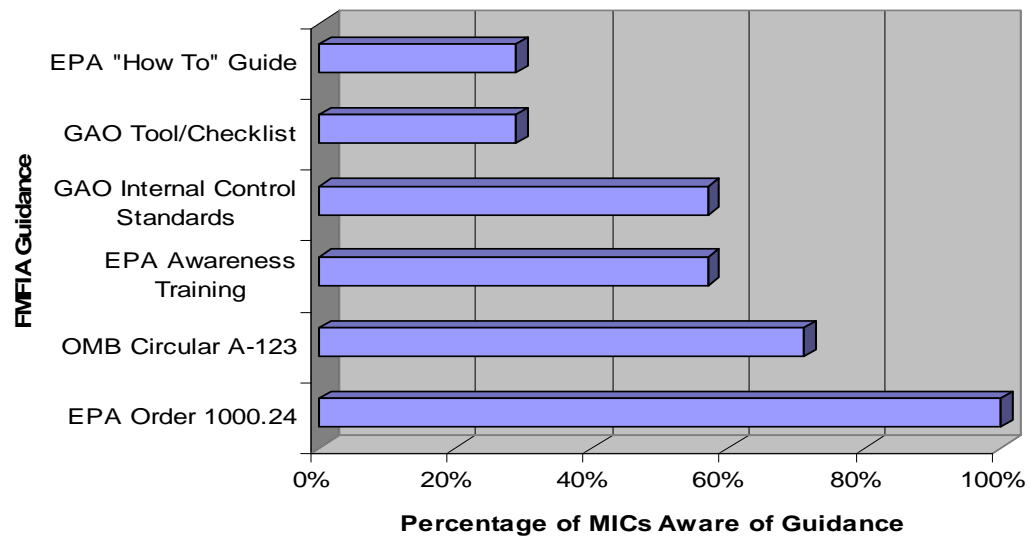
In addition, we found that ORD's 2006 Management Integrity Policy, a supplement to EPA's guidance, was inconsistent with FMFIA guidance because it did not cite GAO's *Standards for Internal Control in the Federal Government*. The policy also referenced out-of-date information, such as older versions of both OMB A-123 and EPA Order 1000.24. ORD staff indicated that its Management Integrity Workgroup plans to revise ORD's policy to include updated guidance.

² We issued a report to OCFO in August 2009 describing our concerns on the administrative focus of FMFIA guidance.

ORD Managers and Staff Need Additional Training on Internal Control Standards

ORD personnel gain knowledge of FMFIA and internal controls largely through on-the-job-training and did not receive sufficient additional training on evaluating internal controls. Inadequate understanding of the internal control process resulted in ORD relegating FMFIA to a yearly administrative reporting activity. ORD managers and staff responsible for FMFIA receive no training on GAO's five internal control standards or how to ensure research programs meet standards. GAO's standards provide the overall framework for establishing and maintaining internal control, and for identifying and addressing major performance and management challenges. None of ORD's lab and center directors could say that their assurance letters addressed internal control standards. Three of seven Management Integrity Coordinators said they addressed all five standards throughout their letters while the remaining four acknowledged that their letters did not do so. Only four of seven coordinators were aware of GAO's standards, while only two of seven were familiar with GAO's evaluation tool/checklist. Figure 2.1 illustrates coordinators' awareness of management integrity guidance.

Figure 2.1: Awareness by Management Integrity Coordinators of FMFIA Guidance



Source: OIG analysis of interviews with Management Integrity Coordinators.

Managers and staff interviewed said they did not consider results of program reviews, such as GPRA performance measures, PART, and peer reviews relevant for FMFIA purposes. However, FMFIA guidance, including OMB Circular A-123, emphasizes the importance of integrating these reviews into the FMFIA process. Several coordinators interviewed said their FMFIA reporting activities focused entirely on administrative activities with no linkage between program review information and FMFIA. All of ORD's coordinators – and several managers – said that additional training on FMFIA would be helpful. One ORD

manager suggested that EPA develop tiered training, with one tier for senior managers on understanding controls and FMFIA and another for management integrity staff on the "nuts and bolts" of implementing and reporting on controls. We believe ORD's FMFIA training should also include coverage of all key guidance documents, such as EPA Order 1000.24.

ORD managers agree on the need to conduct internal control training at all levels within the organization. However, ORD's Draft Multi-Year Program Review Strategy did not elaborate on a specific training plan. ORD states that it will periodically train all key personnel involved in the internal control process and work with the Agency to identify appropriate training for staff. ORD should identify areas of strength and weakness among its staff and, in turn, tailor its training around those needs. Coordinators interviewed suggested ORD develop training that includes:

- Internal controls,
- An ORD-specific template for reporting,
- Best practices/lessons learned,
- Risk assessment requirements, and
- Training unique to managers on their FMFIA responsibilities and internal controls.

Without comprehensive and up-to-date training, personnel may not be qualified to assess performance of programmatic operations.

Assurance Letters Omitted Program Risk and Performance Information

ORD, NHEERL, and the Office of Science Policy's FY 2008 assurance letters did not document results of relevant program reviews conducted by organizations external to ORD. EPA Order 1000.24 provides several examples of program management information to incorporate into assurance letters, including management reviews, OIG and GAO reports, program evaluations, and other audits and reviews such as GPRA. Examples of program risk and performance information omitted from assurance letters follow in Table 2.2.

Table 2.2: Examples of Information Omitted from Assurance Letters

| ORD |
|--|
| <ul style="list-style-type: none"> • ORD's FMFIA strategy and FY 2008 assurance letter did not address how ORD developed and implemented performance goals and measures to comply with GPRA and PART requirements. ORD described this internal control system in its "Accountability Handbook for Performance Measurement" (dated August 2007) and in Section 5.2 ("ORD Performance Measure Tracking") of ORD's Policies and Procedures Manual. |
| <ul style="list-style-type: none"> • ORD's letter did not discuss results of BOSC reviews on four research programs and one center in FY 2007 and 2008.³ Also, ORD's 2008 assurance letter did not mention completed NHEERL-relevant PART and BOSC reviews for two research programs.⁴ ORD said it incorporates BOSC review results "into ORD management decision-making and into the criteria used for budget decisions and related documents." Several of these BOSC reviews addressed program management issues and could serve to demonstrate ORD's compliance with two GAO internal control standards (control activities and monitoring). |
| <ul style="list-style-type: none"> • ORD's letter did not mention GAO's April and May 2008 testimonial reports where GAO found that ORD's revised Integrated Risk Information System (IRIS) process did not respond to GAO's March 2008 report recommendations and further jeopardized IRIS database viability.⁵ In recommending that EPA not consider IRIS as a management challenge (in an attachment to its 2008 letter), ORD cited its revised IRIS process but did not elaborate on GAO's findings. ORD told us it disagreed when GAO first identified IRIS as a management challenge. However, ORD now agrees since GAO listed IRIS on its High Risk report. |
| <ul style="list-style-type: none"> • ORD only included performance measures on IRIS and the Human Health Risk Assessment program in its FY 2008 letter, excluding all other performance measures. ORD said OCFO's FY 2008 guidance did not require reporting on performance measures. However, the first page of the cover memo accompanying OCFO's FY 2008 guidance stated explicitly that FMFIA requires the Administrator to report on internal controls over programs, including performance measures. OMB Circular A-123 also specifies that agencies consider GPRA and PART requirements as part of their internal control structure. Consistent with this Circular, EPA Order 1000.24 specifies this same requirement. |
| <ul style="list-style-type: none"> • ORD's letter did not mention results of a National Academy of Sciences report issued in February 2008, <i>Evaluating Research Efficiency in the U.S. Environmental Protection Agency</i>, and NHEERL divisional peer reviews. In its FY 2008 assurance letter, NHEERL described completing the Atlantic Ecology Division peer review and responding to the Mid-Continent Ecology Division's peer review. ORD excluded these significant NHEERL items from the FY 2008 ORD assurance letter. Our review of the Atlantic Ecology Division peer review report determined that it addressed three internal control standards (risk assessment, control activities, and monitoring). |

³ BOSC reviewed the Science and Technology for Sustainability Research Program, Human Health Risk Assessment Research Program, Particulate Matter/Ozone Research Program (mid-cycle), Endocrine Disrupting Chemicals Research Program (mid-cycle), and the National Center for Environmental Research.

⁴ These included the Ecological and Safe Pesticide/Safe Product Research Programs.

⁵ IRIS provides toxic chemical assessment information to EPA's stakeholders.

| NHEERL and Office of Science Policy |
|---|
| <ul style="list-style-type: none"> • NHEERL did not identify results of relevant BOSC reviews (reports issued in July and August 2007) in which NHEERL's Gulf Ecology Division participated. Our analysis found that these reviews identified issues relating to four internal control standards and all five of NHEERL's self-identified risks. |
| <ul style="list-style-type: none"> • NHEERL did not discuss the contents or results of a detailed Atlantic Ecology Division peer review in its FY 2008 letter. NHEERL disclosed that it had completed a peer review and that the committee issued a written report "which identifies strengths and challenges and offers recommendations for improvement." |
| <ul style="list-style-type: none"> • ORD's Office of Science Policy, which manages BOSC efforts, listed in its FY 2008 assurance letter final reports completed for five research programs but did not discuss report contents or results. The office included information on review accomplishments, but this information only described the report title, procedural activity (e.g., meeting, conference call), and final report. Additionally, its assurance letter did not discuss a review strategy to systematically evaluate internal controls. |

Source: OIG analysis.

ORD managers said the assurance letter "must attest to the soundness of internal controls for programs, functions, and financial activities" for labs and centers. Completing a risk assessment and developing a review strategy would support decisions regarding the relevance of these reviews and, as a result, determining whether to include review results in the assurance letter. However, because they did not conduct a formal risk assessment nor follow a systematic review strategy, ORD, NHEERL, and the Office of Science Policy omitted from assurance letters external review results pertinent to management integrity. We found review results directly addressed GAO's five internal control standards. Such omissions could impact the accuracy of information ORD reports in its assurance letters, and may render invalid any assurance ORD makes as to the integrity of its programs.

Management Integrity Strategy Should Include Program Elements

As noted above, ORD has not developed a program review strategy to systematically review and assess the effectiveness of internal control as required by EPA Order 1000.24. ORD viewed FMFIA as an administrative exercise and did not consider external program review results as relevant to its management integrity approach. ORD has taken recent steps to develop a draft Multi-Year Program Review Strategy – a requirement of OCFO's 2009 FMFIA guidance. We commend ORD for developing a formal strategy and encourage ORD to include specific details on how it plans to address strategy recommendations in EPA Order 1000.24. In addition, per our second objective, we believe ORD's strategy should also include information on its extensive peer review program as well as best practices we identified from other public sources.

External Peer Program Reviews Conducted by ORD and NHEERL

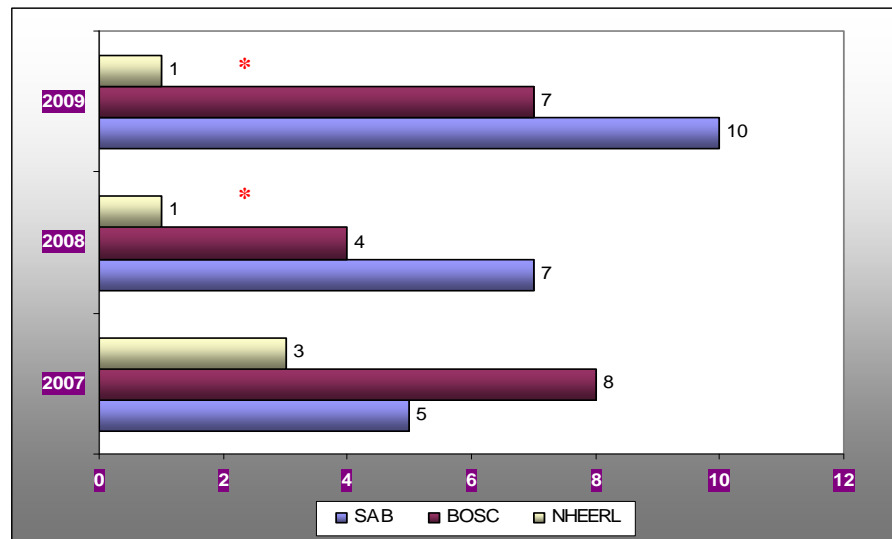
ORD's Strategy should explain how it plans to use external program reviews conducted by the Science Advisory Board, BOSC, peers, GAO, and OIG as program management elements required by EPA Order 1000.24. ORD initiates

program reviews at several levels within its complex matrix structure. ORD's strategy should include a schedule for reviews and describe how ORD will use and report review results as part of its FMFIA process. Results of these reviews, in addition to other program evaluations, should form the basis for any assertions ORD makes in its annual assurance letter to the Administrator. ORD should also evaluate the scope and frequency of external reviews. The potential impact of any risk should include both quantitative and qualitative costs:

- Quantitative costs include the cost of property, equipment, or inventory, cash dollar loss, and damage and repair costs.
- Qualitative costs include loss of public trust, loss of future funding, increased legislation, violation of laws, not achieving organizational goals, and decreased credibility. Such costs, while more difficult to assess, are equally important.

We found that ORD identified completed peer reviews but did not discuss review results. Figure 2.2 lists Science Advisory Board, BOSC, and divisional NHEERL peer reviews.

Figure 2.2: Number of ORD Peer Reviews for 2007-2009



* Note: ORD suspended its divisional peer review program in 2008 and, instead, initiated a pilot Management Systems Review (first in the Gulf Ecology Division in 2008, and planned for the Mid-Continent Ecology Division in September 2009).

Source: Data provided by ORD during the course of field work.

We analyzed select program reviews and identified internal control aspects in questions reviewers asked as well as review results and recommendations. While each review had different objectives, we found that several reports addressed, to varying degrees, GAO's standards. Some examples include:

- In its mid-cycle review of the Global Change Research Program in September 2008, BOSC asked, "How responsive has the Global Change Research Program

been to the recommendations made in the April 2006 BOSC program review report?” This question addresses the “monitoring” internal control standard.

- In its review of the Human Health Risk Assessment Program in April 2008, BOSC asked, “How consistent are the Long Term Goals of the Program with achieving the Agency’s strategic plan and the Human Health Risk Assessment’s MYP (Multi-Year Plan)?” This question is similar to several items GAO included in its *Internal Control Management and Evaluation Tool* under the “risk assessment” heading.

A risk-based strategy that prioritizes systematic reviews can help determine whether there are redundancies in a program and the programs at greatest risk are being reviewed. ORD managers acknowledged they may have redundancies in the peer reviews they conduct, and BOSC came to the same conclusion in a report. In addition to the burden of being over-reviewed, ORD does not know if it focuses reviews on the highest risk areas that warrant most attention.

Best Practices ORD Could Implement

We identified several best practices on management integrity used at public organizations that ORD could use (with modifications) in its strategy:

- The State of Minnesota’s risk management plan provides an example of steps that any risk assessment methodology should include. This plan, shown in Table 2.3, becomes the overall basis for developing, evaluating, and maintaining internal control.

Table 2.3: Elements of Minnesota’s Risk Assessment Methodology

| |
|--|
| <ol style="list-style-type: none"> 1. Identify risk. 2. Categorize risk. 3. Assess likelihood and effect. 4. Prioritize risks. 5. Develop a plan to reduce risks (response). 6. Document dates and actions taken to reduce risks. 7. Establish systematic reviews and track responses. 8. Control risk – use above process, update based on results, and revise. |
|--|

Source: State of Minnesota

- The Department of Defense requires its components to: (1) determine high risk areas and establish written plans for testing those areas, and (2) develop a written strategy for program reviews based on those risks. The Defense Acquisition University identifies and describes risks by reviewing strategic and other planning documents and communicating with stakeholders to assess: (a) deliverables and work processes, (b) milestones and schedule dates, (c) resource needs and sources, and (d) performance requirements.

In addition, ORD could use GAO's *Internal Control Management and Evaluation Tool*, which outlines steps for identifying, assessing, and analyzing internal/external risks and effects. One step to identify internal risk factors includes identifying "any potential risks due to a highly decentralized program operation" – a step relevant to ORD given its matrix organization. We believe the tool provides a sound starting point that offices can tailor as appropriate, particularly since EPA Order 1000.24 affords program managers flexibility in designing review strategies.

ORD could also conduct benchmarking similar to what it did on efficiency measures for research organizations (see Chapter 1 "Noteworthy Achievements"). ORD finds these organizations more analogous to it and could ask for management integrity best practices these organizations apply. Also, four of eight federal agencies we reviewed separate FMFIA into two tracks – a program track and a financial track. ORD's Administrative Efficiencies Project workgroup has recently considered developing a "scientific," or programmatic, track, and ORD should thoroughly consider this approach.

Conclusion

FMFIA requires federal managers to improve the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Internal controls are key factors in achieving agency missions and program results and improving accountability. We recognize efforts ORD has made. However, ORD has several opportunities for continued improvement. Through its proposed Multi-Year Program Review Strategy, ORD could define elements of its training program, consider all performance measures and peer review results for FMFIA reporting, and incorporate internal control best practices. By doing this, ORD will better accomplish FMFIA as intended – the umbrella under which ORD should form its internal control framework.

Recommendations

We recommend that the Assistant Administrator for Research and Development:

- 2-1 Conduct a risk assessment using the GAO internal control standard for risk assessment and EPA Order 1000.24 and, based upon the results, develop a comprehensive risk-based program review strategy.
- 2-2 Train managers and other management integrity staff on FMFIA and internal controls. For senior managers, offer training designed to provide an overall understanding on internal controls and a manager's responsibilities under EPA Order 1000.24. For Management Integrity Coordinators, offer training designed to describe how to implement and report on internal controls.

- 2-3 Revise the Management Integrity Policy to include programmatic operations. The policy should include a role for National Program Directors, integrate performance measures, reference current FMFIA guidance, and include a training plan. The program should incorporate public sector best practices and a two-track approach to address administrative and programmatic elements.

Agency Comments and OIG Evaluation

ORD agreed with our draft report findings and concurred with our recommendations. ORD noted, and we agree, that the FMFIA process is not the only opportunity to evaluate and report on research program performance, and ORD's comments provided additional information on other activities it conducts. ORD included in its report comments a table listing planned corrective actions and completion dates to address our recommendations. We believe ORD's planned corrective actions address the intent of each of our recommendations. Appendix C includes ORD's full response.

Status of Recommendations and Potential Monetary Benefits

| RECOMMENDATIONS | | | | | | POTENTIAL MONETARY BENEFITS (in \$000s) | |
|-----------------|-------------|--|---------------------|--|---|--|---------------------|
| Rec. No. | Page No. | Subject | Status ¹ | Action Official | Planned Completion Date | Claimed Amount | Agreed To Amount |
| 2-1 | 16 | Conduct a risk assessment using the GAO internal control standard for risk assessment and EPA Order 1000.24 and, based upon the results, develop a comprehensive risk-based program review strategy. | O | Assistant Administrator for Research and Development | September 2010 | | |
| 2-2 | 16 | Train managers and other management integrity staff on FMFIA and internal controls. For senior managers, offer training designed to provide an overall understanding on internal controls and a manager's responsibilities under EPA Order 1000.24. For Management Integrity Coordinators, offer training designed to describe how to implement and report on internal controls. | O | Assistant Administrator for Research and Development | Within 12 months of course development | | |
| 2-3 | 17 | Revise the Management Integrity Policy to include programmatic operations. The policy should include a role for National Program Directors, integrate performance measures, reference current FMFIA guidance, and include a training plan. The program should incorporate public sector best practices and a two-track approach to address administrative and programmatic elements. | O | Assistant Administrator for Research and Development | January 2010 | | |

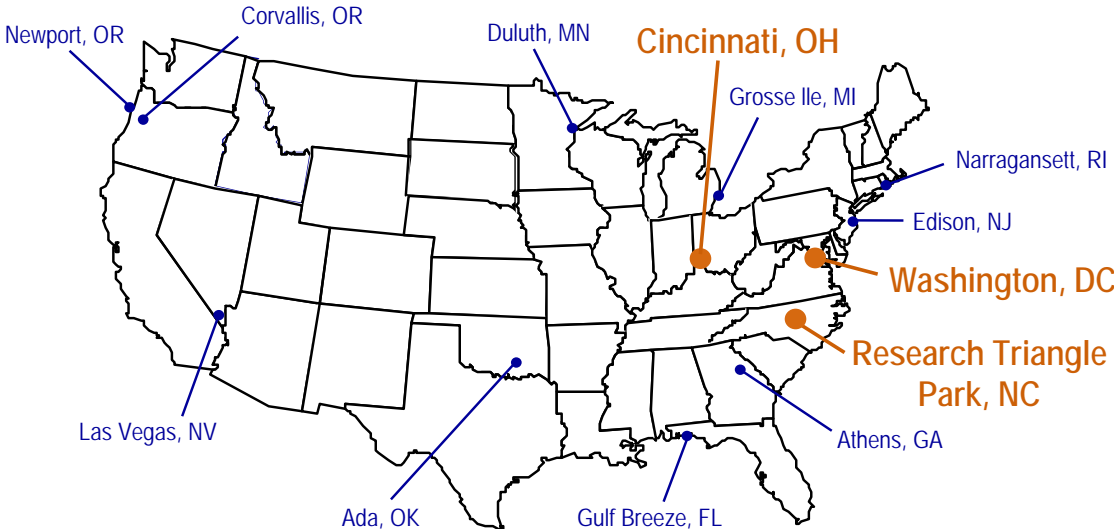
¹ O = recommendation is open with agreed-to corrective actions pending
C = recommendation is closed with all agreed-to actions completed
U = recommendation is undecided with resolution efforts in progress

Appendix A

Organization of EPA ORD

ORD has facilities geographically located across the country, as shown in Figure A.1, with its headquarters in Washington, DC, and main research facilities in Ohio and North Carolina.

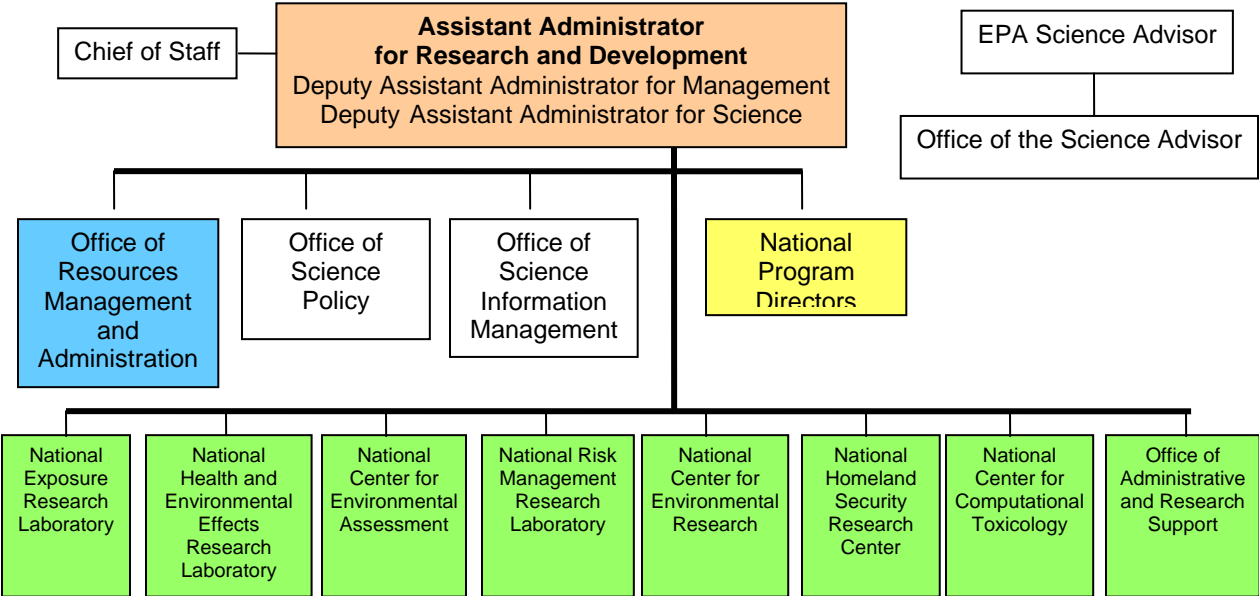
Figure A.1: Location of ORD Labs, Centers, and Offices



Source: ORD presentation to OIG in October 2008.

Figure A.2 depicts ORD’s matrix structure.

Figure A.2: ORD’s Organizational Structure



Source: ORD (organizational chart as of April 2009).

Descriptions of duties corresponding to ORD organizational components are in Table A.1.

Table A.1: ORD Organizational Responsibilities

| | |
|---|---|
| Assistant Administrator for Research and Development | <ul style="list-style-type: none"> • Signs ORD's annual FMFIA assurance letter. • Provides oversight and accountability for ORD's management integrity program and internal controls over program operations and financial reporting. • Implements the internal control framework and fosters an organizational environment that supports continuous awareness of internal controls at all levels. |
| National Program Directors | <ul style="list-style-type: none"> • Responsible for Multi-Year Plans that establish priorities and goals. • Serve as primary contacts in PART reviews/GPRA measurement. • Coordinate with BOSC regarding Multi-Year Plan program peer reviews. |
| Lab, Center, and Office Directors | <ul style="list-style-type: none"> • Responsible for managing resources allocated to labs, centers, and offices to implement research in support of Multi-Year Plans. • Sign annual FMFIA assurance letters for their labs, centers, and offices. |
| Office of Resources Management and Administration | <ul style="list-style-type: none"> • Conduit between ORD's Assistant Administrator, OCFO, and ORD labs, centers, and offices for the assurance letter process, including developing and providing management integrity guidance for the organization and consolidating annual assurance letters for labs, centers, and offices into ORD's annual letter. |

Source: ORD presentation to OIG, and OIG's February 2009 interviews with National Program Directors.

ORD has developed numerous Multi-Year Plans to administer key research programs and outline annual performance goals and associated measures. Multi-Year Plans provide an overview of the direction of ORD's research, present significant research accomplishments, and communicate ORD's research program to stakeholders. Key research programs include:

- Clean Air
- Human Health
- Human Health Risk Assessment
- Drinking Water
- Pesticides and Toxic Substances (Safe Pesticides/Safe Products)
- Ecological Research
- Water Quality
- Global Change
- Land

Several years ago, ORD began to focus on the importance of independently confirming that it conducts the right science and does it well. Concurrently, OMB indicated, in conjunction with PART, the importance of independent expert reviews of federal research programs. ORD instituted BOSC reviews of its programs and aligned them to meet the structure of PART. In 2006, to improve its external review process and better ensure the relevancy and credibility of its research programs and science, ORD developed three specific charge questions for use in BOSC's summary assessment of each research program's long-term goals:

1. Relevance: How appropriate is the research used to achieve each long-term goal? Is the program still asking the right questions, or have they been superseded by advancements in the field?
2. Quality: How good is the technical quality of the program's research products?
3. Performance: How much are the program results being used by environmental decision-makers to inform decisions and achieve results?

Appendix B***Details on Scope and Methodology***

We conducted our audit to determine how ORD implements FMFIA. During our audit, we identified concerns with ORD's implementation of internal control standards prescribed by the Comptroller General as required by Section 2 of FMFIA. Our findings only address ORD's implementation of Section 2 of FMFIA (internal control over programs), and not Section 4 (financial accounting systems) or Appendix A of OMB's Circular A-123 (internal control over financial reporting). Our audit focused on ORD's headquarters office, in Washington, DC, and its NHEERL facilities in Raleigh, North Carolina, and Corvallis and Newport, Oregon. NHEERL is ORD's largest laboratory in terms of its budget and number of personnel employed.

To address our first objective on whether ORD had a systematic strategy to establish, review, and monitor internal controls, we did the following:

- Gathered and analyzed FMFIA regulations, policies, and guidance related to GAO's *Standards for Internal Control in the Federal Government*, and OMB Circular A-123.
- Gathered and analyzed EPA and ORD policies, procedures, guidance documents, and budget data related to FMFIA implementation, including EPA Order 1000.24.
- Attended briefings by ORD managers regarding ORD's organization, resource utilization, annual planning, approach to FMFIA implementation, systematic strategy for reviewing internal controls, near- and long-term laboratory studies, and the review process used by BOSC.
- Conducted site visits to five NHEERL facilities (three collocated in Raleigh, North Carolina, and one each in Corvallis and Newport, Oregon) and attended briefings on organization, resource utilization, annual planning, and FMFIA implementation. (Site visits in Raleigh also included tours of several other ORD laboratories.)
- Reviewed ORD's, NHEERL's, and ORD's Office of Science Policy FMFIA assurance letters to determine whether they addressed all five GAO standards as specified in OCFO's FY 2008 guidance. We also reviewed letters to determine whether ORD and NHEERL documented and used program review results to establish and assess the effectiveness of internal controls.
- Participated in OCFO conference calls and interviewed OCFO staff to understand the FMFIA process, particularly concerns regarding programmatic review elements.
- Interviewed ORD's seven Management Integrity Coordinators and their supervisors, and ORD's eight National Program Directors about roles and responsibilities in implementing ORD's FMFIA process, focusing on FMFIA time and training requirements and needs.
- Developed summary working papers on each set of interviews to obtain quantitative data.
- Identified and analyzed program reviews of ORD research programs for FY 2007 and 2008 to determine the extent review questions, results, and recommendations addressed the five GAO standards.
- Conducted interviews with ORD and NHEERL staff and managers on reasons for including and excluding certain information from the assurance letter development process.

To address our second objective on what ORD's internal control strategy should contain to account for risks in meeting program goals, we did the following:

- Flowcharted ORD's calendar of external reviews to determine the number of reviews conducted annually.
- Benchmarked FMFIA assurance letters and policies used by other federal agencies to determine best practices ORD could use in its own systematic strategy.
- Conducted follow-up interviews with OCFO staff on their understanding of the internal control review strategy as required by EPA Order 1000.24.
- Reviewed internal control review strategies from other EPA program offices.
- Benchmarked other sample risk assessment methodologies available on-line and reviewed how others established controls based upon the Council of Sponsoring Organizations requirements. We also contacted GAO for sample methodologies.
- Obtained and reviewed ORD's draft strategy to determine any improvement areas and/or whether it affected our strategy recommendations.
- Determined the effect of not developing a review strategy by documenting the relationship between EPA Order 1000.24 and OCFO assurance letter guidance, determining how assurance letters could have referenced prior internal/external reviews to demonstrate compliance with internal control standards, and reviewing internal/external reviews and how ORD and NHEERL might redirect review resources.

We did not find any prior audits or evaluations of ORD's implementation of FMFIA.

Appendix C

Agency Response to Draft Report

September 4, 2009

MEMORANDUM

SUBJECT: ORD Response to OIG Draft Report *EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act to Improve Operations* Project No. OA-FY08-0323

FROM: Lek G. Kadeli/s/
Acting Assistant Administrator (8101R)

TO: Patrick Gilbride
Director, Risk and Program Performance Audits (801G)

This memorandum responds to the Office of Inspector General (OIG) draft audit report, *EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity Act (FMFIA) to Improve Operations* (Project No. OA-FY08-0323), dated August 6, 2009. The recommendations provided in the report will help the Office of Research and Development (ORD) continue to improve its FMFIA process.

As the scientific research and assessment arm of EPA, ORD maintains a strong management integrity program that systematically reviews and assesses the effectiveness of internal controls consistent with GAO Standards and OMB Circular A-123. As required by the *Federal Managers' Financial Integrity Act (FMFIA)*, we annually evaluate our internal controls over programs and administrative systems and provide assurance on the integrity of our controls. ORD is committed to ensuring that our science is of the highest quality, our programs are managed effectively and efficiently, and that we aggressively prevent fraud, waste, and abuse.

In contrast to the report's conclusion, the FMFIA process is not the only "opportunity to evaluate and report on research program performance." As you correctly noted in the report, ORD has "focused on the importance of independently confirming that it conducts the right science and does it well." ORD instituted a strategic multi-year planning process to guide the direction of ORD's research to focus on EPA's highest priority needs for science and promote coordination of research across laboratories, centers and offices to achieve its goals. ORD has engaged other agencies and scientific experts in an effort to determine the most effective approach(es) to evaluate and measure the efficiency of its research programs through reviews by Board of Scientific Counselors, Science Advisory Board, and the National Academy of Sciences; quality assurance programs, which include peer reviews and self inspections; and Government Accountability Office and OIG audits. Thus far in FY 2009, more than 70 reviews of ORD

programs, functions and operations have been completed. Based on the results of these reviews, we are continually improving the science and research we provide to the Agency.

The OIG provides three recommendations to strengthen ORD's FMFIA process. In general we agree with the recommendations and I am pleased to say that ORD has been actively working on revisions to its FMFIA process. ORD will continue to include information in its assurance letter that it deems to be of significant importance to the Administrator. ORD remains committed to management integrity and maintaining effective internal controls throughout our organization.

Attached please find: (1) our response to each of the three recommendations contained in the draft report and 2) a summary table of ORD's corrective actions and associated projected completion dates. If you have any questions, please contact me or Deborah Heckman at (202) 564-7274.

Attachment

cc: Donna Vizian
Hal Zenick
Amy Battaglia
Jim Morant
Deborah Heckman

ORD Response to OIG Recommendations Contained in Draft Report

“EPA’s Office of Research and Development Could Better Use the Federal Managers’ Financial Integrity Act to Improve Operations” Project No. OA-FY08-0323 August 6, 2009

Recommendation 2-1 - Conduct a risk assessment using the GAO internal control standard for risk assessment and EPA Order 1000.24 and, based upon the results, develop a comprehensive risk-based program review strategy.

Response: ORD generally agrees with this recommendation.

Recognizing the complexity of conducting a comprehensive risk assessment⁶ for a research organization, ORD is developing an ORD-wide approach to the risk assessment. By December 2009, ORD senior leaders will be designated to serve on ORD Executive Assessment Team (ORDEAT) to: ensure consistency in ORD’s corporate approach to internal controls; review internal control information in order to make corporate decisions; concur on the ORD three-year program and management review schedule; and make recommendations to the DAA for Management and AA regarding the ORD high risk areas. By August 2010, ORD will review its processes, test key internal controls related to ORD activities, and assess programmatic and administrative risks. By September 2010, after completing the risk assessment activities, ORD will revise its multi-year program review strategy as necessary.

Recommendation 2-2 - Train managers and other management integrity staff on FMFIA and internal controls. For senior managers, offer training designed to provide an overall understanding on internal controls and a manager’s responsibilities under EPA Order 1000.24. For Management Integrity Coordinators, offer training designed to describe how to implement and report on internal controls.

Response: ORD generally agrees with this recommendation.

ORD is committed to training managers and employees involved with administering ORD’s management integrity program. However, OCFO agreed to “*complete development of an Agency-wide strategy for comprehensive, tiered FMFIA training by the end of fiscal year 2009*” in its July 16, 2009 response to the OIG draft audit report titled *EPA Should Use FMFIA to Improve Programmatic Operations* (Project No. 08-FY08-0323). In order not to duplicate OCFO’s efforts, ORD will collaborate with OCFO on developing and implementing an Agency-wide training program which ensures compliance with FMFIA and proper reporting of internal controls. ORD will assess the applicability of the newly developed training for senior ORD managers and, if necessary, initiate additional course development. ORD will then ensure that its managers and integrity staff are trained within 12 months of completion of the course development.

⁶ As defined by GAO Standards for Internal Control in The Federal Government

Recommendation 2-3 - Revise the Management Integrity Policy to include programmatic operations. The policy should include a role for National Program Directors, integrate performance measures, reference current FMFIA guidance, and include a training plan. The program should incorporate public sector best practices and a two-track approach to address administrative and programmatic elements.

Response: ORD generally agrees with this recommendation.

By January 2010, ORD will revise the ORD Management Integrity Policy to include programmatic operations, appropriate integration of performance measures and outcomes and reference current FMFIA guidance. As recommended, ORD will devise a two-track approach to address administrative and programmatic elements as required by GAO and Agency guidance. The new policy will define the roles of management and will include National Program Directors responsibilities or other matrix managers we may have in the future under ORD's programmatic operations. The Management Integrity Policy will reference Agency training requirements for all managers and ORD integrity staff.

ORD Corrective Actions and Projected Completion Dates

| Rec. No. | OIG Recommendation | Lead Responsibility | ORD Corrective Action | Planned Completion Date |
|----------|---|--|--|--|
| 2-1 | Conduct a risk assessment using the GAO internal control standard for risk assessment and EPA Order 1000.24 and, based upon the results, develop a comprehensive risk-based program review strategy | Assistant Administrator for Research and Development | ORD is currently finalizing a strategy that examines and reports on internal controls covering programmatic and administrative operations and financial activities. Once finalized, ORD's multi-year program review strategy will help ORD identify high-risk areas, detect weaknesses and deficiencies, and identify best practices in our internal controls. | September 2010 |
| 2-2 | Train managers and other management integrity staff on FMFIA and internal controls. For senior managers, offer training designed to provide an overall understanding on internal controls and a manager's responsibilities under EPA Order 1000.24. For Management Integrity Coordinators, offer training designed to describe how to implement and report on internal controls. | Assistant Administrator for Research and Development | Collaborate with OCFO | Within 12 months of Course Development |
| 2-3 | Revise the Management Integrity Policy to include programmatic operations. The policy should include a role for National Program Directors, integrate performance measures, reference current FMFIA guidance, and include a training plan. The program should incorporate public sector best practices and a two-track approach to address administrative and programmatic elements | Assistant Administrator for Research and Development | ORD will revise the ORD Management Integrity Policy to include programmatic operations, a definition of the National Program Directors' role in the process and integration of performance measures and outcomes. | January 2010 |

Appendix D

Distribution

Office of the Administrator
Acting Assistant Administrator, Office of Research and Development
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