



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

*Operating efficiently and effectively*

## **Management Alert:** **EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention**

Report No. 18-P-0250

September 12, 2018



## Report Contributors:

John Trefry  
Leah Nikaidoh  
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## Abbreviations

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
IBC	Interior Business Center (U.S. Department of the Interior)
OCFO	Office of the Chief Financial Officer
OGC	Office of General Counsel
OIG	Office of Inspector General
U.S.C.	United States Code

**Cover Image:** A depiction of missing debt waivers. (EPA OIG image)

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# At a Glance

## Why We Did This Project

The U.S. Environmental Protection Agency's (EPA's) Office of Inspector General (OIG) initiated an audit to determine whether the EPA properly collects salary overpayments from its employees.

The U.S. Department of the Interior's Interior Business Center (IBC) processes the EPA's payroll. One of the IBC's responsibilities is to issue debt notices to employees when salary overpayments are identified. Under certain circumstances, employees can request to have their debt waived. The agency is responsible for reviewing the debt waiver request and determining whether to accept or deny the request.

While our audit is ongoing, the purpose of this management alert is to notify the agency about our finding related to internal control weaknesses that resulted in unprocessed debt waivers.

### This report addresses the following:

- *Operating efficiently and effectively.*

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Listing of [OIG reports](#).

## **Management Alert: EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention**

### What We Found

Internal controls failed to detect 18 EPA employee debt waiver requests totaling \$22,015. Even though the agency's payroll provider forwarded this information to the EPA's Office of the Chief Financial Officer (OCFO), the office was not aware of the missing waivers until the OIG brought it to their attention. Several debt waiver requests have been outstanding since 2015.

**When debt waiver requests are not resolved in a timely manner, EPA employees may assume their debts have been forgiven.**

Several internal control failures caused the debt waiver requests to go missing, including the lack of:

- Accurate and consistent policies and procedures for debt waiver processing.
- Monitoring and accounting for current agency employee debts (in-service debts).

The EPA has taken several actions to improve debt waiver processing. The OCFO's Cincinnati Finance Center has begun processing the missing debt waiver requests and has provided eight debt waiver packages to the Office of General Counsel for review. However, the underlying issues that caused the missing debt waivers have not been fully addressed.

### Recommendations and Agency Corrective Actions

We recommend that the OCFO continue to analyze all debts that the IBC has identified as having open waiver requests and take immediate action to process any additional missing debt waiver requests. We also recommend that the OCFO expand the accounting of in-service debts that the IBC has identified by recognizing this debt activity in the EPA's accounting system.

The agency implemented corrective action to improve its process to analyze and manage open waiver requests by adopting standard operating procedures for debt waiver requests. We confirmed with the EPA Claims Officer that his office has received additional debt waiver requests from the OCFO. No further action is required for this recommendation.

Although the agency disagreed with our recommendation to record individual accounts receivable for each employee debt, the OCFO adopted a new procedure to record accounts receivable on a quarterly basis. We agree that the OCFO's alternative corrective action satisfies the intent of the recommendation, and we modified our recommendation in the final report. No further action is required for this recommendation.



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

THE INSPECTOR GENERAL

September 12, 2018

**MEMORANDUM**

**SUBJECT:** Management Alert: EPA Oversight of Employee Debt Waiver Process  
Needs Immediate Attention  
Report No. 18-P-0250

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

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

**TO:** Holly Greaves, Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). The project number for this audit was OA-FY18-0084. 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 represent the final EPA position.

The Office of the Chief Financial Officer is responsible for managing the EPA's accounting system, including debts resulting from salary overpayments. The Office of General Counsel is responsible for the review and disposition of all debt waiver requests.

In accordance with EPA Manual 2750, your office has taken acceptable corrective actions in response to OIG recommendations. All corrective actions are completed, and no final response to this report is required. However, if you submit a response, it will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 or the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

The report will be available at [www.epa.gov/oig](http://www.epa.gov/oig).

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## Purpose

The Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA) is conducting an audit of the EPA's salary overpayment and debt forgiveness waiver process. The objective of the audit is to determine whether the agency properly collects salary overpayments from its employees. This report alerts management to internal control weaknesses that were identified during the audit and relate to the processing of debt waiver requests.

Our overall audit of the EPA's salary overpayment and debt waiver process is ongoing.

## Background

A salary overpayment to an employee can occur for a variety of reasons, including the miscoding of salary information or corrections to a time card, which can impact pay. The U.S. Department of the Interior's Interior Business Center (IBC) is the EPA's payroll provider. When a salary overpayment occurs, the IBC's payroll system automatically computes the amount of overpayment, generates a bill for collection, and mails the bill to the subject employee. The bill, known as a debt memo, formally notifies the employee of the amount that needs to be repaid to the agency. The debt memo also includes a detailed listing of specific pay periods and amounts where the employee was overpaid.

In addition, the debt memo provides instructions for payment options, and the employee is informed about their legal and regulatory rights, including the right to request a waiver or hearing. The employee may submit an application to the appropriate EPA office to request that the debt be waived. In accordance with federal regulations, executive agencies are permitted to waive debts of its employees related to, among other things, salary overpayments.

### ***Federal Law***

Federal law at 5 U.S.C. 5584, *Claims for overpayment of pay and allowances, and of travel, transportation and relocation expenses and allowances*, provide the authority for waiving, in whole or in part, debts if collection would be against the equity and good conscience and not in the best interests of the United States. Debts over \$1,500 can be waived only by an authorized official.

### ***EPA Policy Requirements***

EPA Order 3155.1, *Waiver of Claims for Overpayments* (October 6, 2014), establishes policies and procedures for the waiver of claims due to erroneous payments. The policy specifically states that a waiver is precluded if an employee receives a significant unexplained increase in pay or allowance or otherwise

knows, or reasonably should know, that an erroneous payment has occurred. Waiver under this policy depends upon the facts existing in the particular case.

The policy also states:

... the Agency's Claims Officer will adjudicate any request for waiver and deny or approve the request for waiver or for a refund of an amount repaid in accordance with 5 U.S.C. § 5584 and case law authority.

In accordance with EPA Delegation 1-26, *Waiver of Claim for Erroneous Payments of Pay* (April 1, 2003), the Administrator delegated to the Office of General Counsel (OGC) the authority to receive, evaluate and make decisions for all matters under the authority of 5 U.S.C. 5584. This delegation has been reauthorized several times since 2003. Most recently, on January 4, 2016, the OGC redelegateed this authority to the EPA's Claims Officer within the OGC.

## **Responsible Offices**

The EPA's Office of the Chief Financial Officer (OCFO) has the following responsibilities:

- Receiving debt waiver requests through its Human Resources and Payroll Customer Service help desk.
- Recording debts in its financial systems.
- Maintaining subsidiary records for debts/accounts receivable, including the basis for the debt and all administrative actions regarding the debt and final disposition.
- Providing payroll support to EPA's payroll provider, the IBC.
- Managing accounts receivable for the agency through the OCFO's Cincinnati Finance Center (CFC).

The OGC is responsible for the review and disposition of all debt waiver requests.

## **Scope and Methodology**

We conducted this audit 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 the audit objectives. We believe that the evidence obtained to date provides a reasonable basis for our findings and conclusions presented in this report.

To determine whether the EPA properly forgives debts owed by its employees through its waiver process, we performed the following steps:

- Interviewed the EPA’s Claims Officer regarding legal authority to make employee debt waiver decisions, and reviewed related documentation.
- Interviewed the OCFO Controller and staff, and reviewed documentation related to policies, procedures and guidance for managing employee debts.
- Interviewed IBC officials to determine IBC responsibilities related to the EPA employee debt memo process.
- Reviewed debt waiver requests and their disposition.

## Results

This management alert notifies the agency that internal control weaknesses have resulted in the mishandling of debt waiver requests. The EPA had a total of \$22,015 in debt waiver requests that were not processed by the OCFO or the OGC. The agency was not aware of the missing debt waiver requests until we brought the matter to its attention. While the CFC has started processing the debt waiver requests, underlying issues that caused the debt waiver requests to go missing have not been addressed.

### ***EPA Unaware of Unresolved Employee Debt Waiver Requests***

The EPA had not processed 18 employee debt waiver requests for salary overpayments totaling \$22,015. The IBC identified the debt waiver requests as being in “waiver review status” as of December 2017. Being in waiver review status essentially puts the debt-collection process on hold while the EPA reviews the requested debt waiver.

Although the IBC informed the EPA that the debts were in waiver review status, the agency’s lack of internal controls caused the debt waiver requests to be overlooked. Neither the OGC nor the OCFO was aware of the debt waiver requests. All but one of the debts have been in waiver review status for more than 1 year, some for several years.

We provided a list of 15 missing debt waiver requests to the OCFO on March 28, 2018. The OCFO responded on April 23, 2018, stating that the debt waiver requests were now under review by the CFC. For 15 of the missing debt waiver requests, the CFC sent debt waiver request packages to the employees on April 19, 2018. The CFC notified the employees about their obligation and the procedures for debt waiver requests.

On May 17, 2018, we identified three additional missing debt waiver requests and provided this information to the OCFO for review and action.

Table 1 highlights the 18 debts and details their waiver status as of June 15, 2018.



**Table 1: Unresolved employee debt waiver requests**

Debt ID	Debt total	Original date IBC sent debt waiver request to EPA	IBC bill date	Date CFC sent waiver package to employee	Date CFC submitted waiver request to OGC
M1715700001	\$188.02	6/26/17	6/6/17	4/19/18	5/4/18
70030265404	452.33	1/25/17	1/3/17	4/19/18	4/27/18
62570260283	749.11	9/21/16	9/12/16	4/19/18	4/30/18
61731590726	295.05	7/13/16	6/20/16	4/19/18	4/23/18
61731496723	2,663.02	6/30/16	6/20/16	4/19/18	4/25/18
Q1170266097	100.53	5/13/16	4/25/16	4/19/18	5/4/18
60890270536	1,070.91	4/14/16	3/28/16	4/19/18	
60750270536	9,391.13	4/11/16	3/14/16	4/19/18	
M1608500006	226.83	4/11/16	3/25/16	4/19/18	5/14/18
Q0470262918	414.87	4/5/16	2/16/16	4/19/18	
Q0750270280	238.02	3/19/16	3/14/16	4/19/18	
60051536197	1,781.52	1/25/16	1/4/16	4/19/18	5/7/18
53420270495	2,169.44	1/5/16	12/7/15	5/29/18	
Q2160260410	254.21	8/25/15	8/3/15	4/19/18	
Q2300260410	148.42	8/25/15	8/17/16	4/19/18	
51740257722	1,021.63	7/30/15	6/22/15	5/29/18	
50480255627	779.24	3/18/15	2/17/15		
Q0340266326	70.87	2/18/15	2/2/15	4/19/18	N/A
<b>Total</b>	<b>\$22,015.15</b>				

Source: OIG analysis of IBC and EPA data.

The CFC received completed debt waiver requests for eight debts and forwarded the requests to the OGC for resolution. For one debt, the CFC indicated that the employee no longer wanted a waiver and had repaid the debt to the IBC. However, the CFC did not verify with the IBC that this individual’s debt was repaid until we explained that this individual had multiple debts and the CFC needed to confirm payment. The CFC followed up with IBC and determined that the debt had not been paid. The CFC plans to notify the employee about the outstanding debt.

We also noted that when the CFC recently began sending waiver request forms to EPA employees for the missing debts, the form used was outdated and from the agency’s previous payroll provider. We discussed this issue with the OCFO, and the office drafted a waiver form that eliminates all references to other federal agencies, which should help reduce confusion as to where debt waiver requests should be sent.

***Conflicting Instructions for Receiving Debt Waiver Requests and Processing Them in EPA’s Accounting System***

Not only did we identify issues with how debt waiver requests get to the EPA, we also identified issues with how the EPA monitors and records the debts in its

accounting system. The following issues contributed to the EPA's mishandling of debt waiver requests:

- **Debt waiver request delivery.** There are conflicting instructions regarding where the IBC should send debt waiver requests to the EPA. According to EPA Policy 3155.1, the IBC should send the debt waiver case file to the EPA's Claims Officer. However, separate OCFO instructions provided to the IBC state that the IBC should submit waiver process notifications to the OCFO's Human Resources and Payroll help desk. According to the IBC, the 18 debt waiver requests were sent to the help desk. The OCFO's Office of Technology Solutions manages the help desk and claimed the requests were never received. The Office of Technology Solutions stated that the debt waiver requests should go directly to the OCFO's Office of the Controller or to the OGC, because the help desk is designed and funded to address technical difficulties that employees have related to administrative systems. According to the Office of Technology Solutions, it is not equipped to provide assistance in managing employee debt inquiries and debt waiver requests.
- **Monitoring of debts and debt waivers.** During discussions with OCFO officials, they stated that the IBC manages the salary overpayment process, and that the EPA does not monitor or account for the debts. As of April 2018, the EPA did not use the various reports that are available through Datamart—the IBC's on-line data portal—to monitor employee debts and their status. The EPA indicated that the OCFO uses reports available in Datamart to reconcile its labor cost files. However, the EPA's reconciliation process did not identify the unprocessed waivers. Conversely, the IBC was able to quickly provide such information to us. We used this information to identify debt waivers that the EPA had not recognized.
- **Accounting for in-service debts.** In its accounting records, the EPA did not record any employee debts related to salary overpayments. In calendar year 2017, EPA employees generated 969 salary overpayment debts totaling \$1,268,068.

The EPA did not believe that this was its responsibility, stating that the IBC is responsible for managing employee debts. However, this contradicts the EPA's own accounting policy—Resource Management Directive System 2540-9-P1—which states that all debts/accounts receivable must be recorded in the agency's financial accounting system of record. Additionally, any changes in the status of the debts/accounts receivable must be recorded promptly in the agency's accounting system.

The OCFO recently adopted a standard operating procedure titled *Adjustment 31: In-Service Debt* (effective March 31, 2018). This procedure requires the OCFO to prepare a quarterly journal voucher as a

receivable for consolidated financial statement reporting purposes. While this procedure will allow the in-service debt accounts receivable to be reported at the financial statement level, the individual accounts receivable are not recorded in the EPA's accounting system.

### ***Agency Actions to Address Debt Waiver Issues***

The OCFO has taken actions to address various concerns identified as part of our ongoing audit:

- The CFC obtained missing debt waiver request documentation from the IBC and notified affected employees. As of June 15, 2018, the CFC had forwarded eight debt waiver requests to the OGC Claims Officer for review and disposition.
- The EPA developed a standard operating procedure to identify in-service debts as part of its quarterly consolidated financial statement process.
- The OCFO's Office of the Controller recognized that it did not have the authority to make decisions on in-service debt waiver requests and discontinued this practice in February 2018.

## **Conclusion**

The EPA has made progress addressing various issues related to the debt waiver process. However, the agency needs to act and address internal control issues that resulted in the missing debt waiver requests, and formally establish these individual debts in their accounting system. The agency also needs to develop policies and procedures that clearly and consistently describe the debt waiver process, including requirements to periodically monitor the process.

## **Recommendations**

We recommend that the Chief Financial Officer:

1. Continue to analyze all debts in waiver status and take immediate action to process any additional missing debt waiver requests.
2. Expand the accounting of in-service debts that the Interior Business Center has identified by recognizing this debt activity in the EPA's accounting system.

## **Agency Response and OIG Comments**

In response to the draft report, the OIG received comments and corrective actions from OCFO, as shown in Appendix A.

The OCFO agreed with Recommendation 1, and continues to analyze all debts in waiver status and implemented standard operating procedures for processing waiver requests. The OCFO approved the new standard operating procedures on July 24, 2018. We confirmed with the EPA Claims Officer that the CFC is processing debt waiver requests and submitting them to him for review. Therefore, we consider the corrective actions for Recommendation 1 to be complete.

The OCFO disagreed with our original Recommendation 2, but adopted an alternative action to account for in-service debts by using accounts receivable information from its payroll provider to post quarterly journal entries into the agency's financial statements. The OCFO believes its alternative action will meet the intent of federal financial management system requirements. Our review of those federal requirements—Office of Management and Budget Circular A-123 Appendix D and Treasury Financial Manual Chapter 9500—supports the OCFO's position. We also independently verified that the OCFO posted journal vouchers to recognize employee in-service debt due to the EPA for the second and third quarters of fiscal year 2018. We consider the agency's alternative actions to be responsive. Therefore, we revised our recommendation in the final report. The OCFO agreed with the revised recommendation, and we consider corrective actions for Recommendation 2 to be complete.

## **Status of Recommendations and Potential Monetary Benefits**

### RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	6	Continue to analyze all debts in waiver status and take immediate action to process any additional missing debt waiver requests.	C	Chief Financial Officer	7/24/18	
2	6	Expand the accounting of in-service debts that the Interior Business Center has identified by recognizing this debt activity in the EPA's accounting system.	C	Chief Financial Officer	6/30/18	

<sup>1</sup> C = Corrective action completed.  
R = Recommendation resolved with corrective action pending.  
U = Recommendation unresolved with resolution efforts in progress.

## OCFO's Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

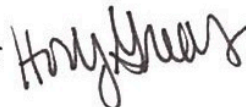
WASHINGTON, D.C. 20460

AUG 10 2018

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General Management Alert Report No. OA-FY18-0084, "*EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention*," dated July 23, 2018

**FROM:** Holly W. Greaves, Chief Financial Officer  
Office of the Chief Financial Officer 

**TO:** Kevin Christensen, Assistant Inspector General  
Office of Audit and Evaluation

Thank you for the opportunity to respond to the issues and recommendations in the Management Alert report. The 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 recommendation with which the agency agrees, we have provided either high-level intended corrective actions and estimated completion dates, to the extent we can, or reasons why we are unable to provide a corrective action or estimated completion date. For the report recommendation with which the agency disagrees, we have explained our position and proposed alternatives to recommendations.

### AGENCY'S OVERALL POSITION

The agency concurs with recommendation 1 and non-concurs with recommendation 2.

**AGENCY'S RESPONSE TO AUDIT RECOMMENDATIONS**

Agreement

<b>No.</b>	<b>Recommendation</b>	<b>Assigned to:</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion by Quarter and FY</b>
1	Continue to analyze all debts in waiver status and take immediate action to process any additional missing debt waiver requests.	OCFO	<u>Concur:</u> The agency continues to analyze all debts in waiver status and has taken action to ensure additional missing debt waiver requests are processed. To continually analyze all debt in waiver status, the agency implemented standard operating procedures providing guidance to process waiver requests. The waiver request procedures include the process flow as well as roles and responsibilities.	Complete 6/30/2018

Disagreement

<b>No.</b>	<b>Recommendation</b>	<b>Assigned to:</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion by Quarter and FY</b>
2	Expand the accounting of in-service debts that the Interior Business Center has identified, and establish individual accounts receivable in the EPA's accounting system for each employee debt.	OCFO	<u>Non-concur:</u> The agency practice of recording accounts receivable for in-service debts in Compass, the financial system, as summary entries complies with OMB and Treasury requirements as established in OMB A-123 Appendix D and the Treasury Financial Manual, Chapter 9500. The agency can support all summary entries with the required detail.	N/A

## **CONTACT INFORMATION**

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Bob Trent, at [trent.bobbie@epa.gov](mailto:trent.bobbie@epa.gov) or (202)-566-0983.

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