



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Compliance with the law

EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed

Report No. 19-P-0163

May 31, 2019



Report Contributors:

Kevin Chaffin
Amir Eskarous
Doug LaTessa
Chikara Mbah
Patrick McIntyre
Michael Petscavage
Lynda Taylor

Abbreviations

AFR	Agency Financial Report
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
SOP	Standard Operating Procedure
UNEP	United Nations Environmental Programme
U.S.C.	United States Code

Cover Images: *Left:* Depiction of the EPA's IPERA compliance.
Right: Depiction of internal control improvements needed. (OIG images)

Are you aware of fraud, waste or abuse in an EPA program?

EPA Inspector General Hotline
1200 Pennsylvania Avenue, NW (2431T)
Washington, DC 20460
(888) 546-8740
(202) 566-2599 (fax)
OIG_Hotline@epa.gov

Learn more about our [OIG Hotline](#).

EPA Office of Inspector General
1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
(202) 566-2391
www.epa.gov/oig

Subscribe to our [Email Updates](#)
Follow us on Twitter [@EPAoig](#)
Send us your [Project Suggestions](#)



At a Glance

Why We Did This Project

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 require that each fiscal year the Inspector General of each agency determine whether the agency is in compliance with the law. IPERA requires agencies to annually estimate and report improper payments for programs and activities that are deemed susceptible to significant improper payments. In addition, Office of Management and Budget Circular A-123, Appendix C, states that the Office of Inspector General should evaluate the accuracy and completeness of agency reporting. Our audit focused on the U.S. Environmental Protection Agency's (EPA's) compliance with these requirements.

This report addresses the following:

- *Compliance with the law.*

Address inquiries to our public affairs office at (202) 566-2391 or OIG_WEBCOMMENTS@epa.oig.

List of [OIG reports](#).

EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed

What We Found

The EPA complied with IPERA in that it reported all required information on improper payments, but the EPA can improve the accuracy and completeness of the information.

The EPA's estimated improper payments and the improper payment error rate were understated for fiscal year (FY) 2018. In the FY 2017 Agency Financial Report, the EPA reported \$12.37 million in estimated improper payments for grants. For FY 2018, the EPA reported only \$310,000 in estimated improper payments—a decrease of nearly \$12 million. We believe the improper payment amount reported for FY 2018 is understated because our review of 25 payments, totaling \$4,418,774, identified an additional \$1,912,275 in payments as improper due to insufficient, or lack of documentation (see Appendix A for further details).

Improvement to processes for preventing and detecting improper payments will result in better use of funds for environmental and supporting programs.

EPA staff did not effectively test drawdowns to verify whether costs were allowable, allocable, reasonable and necessary; and did not use standard operating procedures to substantiate the procedures performed.

Improvement to the testing of drawdowns and the statistical sample for grant payments will aid in the better use of funds for environmental and supporting programs.

Recommendations and Agency Corrective Actions

We recommend that the EPA revise the Office of the Chief Financial Officer's grant improper payments review process to include internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments. We also recommend that the Office of the Chief Financial Officer comply with the EPA's sampling and estimation plan annually submitted to the Office of Management and Budget. The agency agreed with our recommendations and indicated that corrective actions were implemented in April 2019. We consider the recommendation resolved until we confirm completion during next year's audit.



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

OFFICE OF
INSPECTOR GENERAL

May 31, 2019

MEMORANDUM

SUBJECT: EPA Complied with Improper Payments Legislation
but Stronger Internal Controls Are Needed
Report No. 19-P-0163

FROM: Charles J. Sheehan, Deputy Inspector General

A handwritten signature in blue ink that reads "Charles J. Sheehan".

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 assignment was OA&E-FY19-0037. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

In accordance with EPA Manual 2750, your office provided acceptable corrective actions in response to the report's two recommendations. The two recommendations are resolved 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 of the Rehabilitation Act of 1973, as amended. Any 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.

We will post this report to our website at www.epa.gov/oig.

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background.....	1
	Responsible Offices	2
	Scope and Methodology	3
	Prior Audit Coverage.....	3
2	EPA Complied with IPERA	4
3	OCFO's Grant Review Process Needs Improvement	6
	Laws, Regulations and Agency Procedures Provide Requirements for IPERA Grant Reviews	6
	Improvements Needed for the Grant Review Process.....	7
	Reviewers Were Not Adequately Trained	9
	Improper Payments Underestimated.....	10
	Recommendation.....	11
	Agency Response and OIG Evaluation	11
4	EPA Did Not Test All Grant Payments for Improper Payments	12
	EPA's Sampling Methodology Required 225 Samples to Be Tested	12
	EPA Did Not Test All Payments for Improper Payments	13
	EPA Determined UNEP Grants Did Not Fall Within Scope of IPERA	13
	Grants Improper Payments Rate Understated	14
	Recommendation.....	14
	Agency Response and OIG Evaluation	14
	Status of Recommendations and Potential Monetary Benefits	15

Appendices

A	Sample of Grant Drawdowns Audited	16
B	Agency Response	17
C	Distribution	19

Chapter 1

Introduction

Purpose

The purpose of this audit was to report on the U.S. Environmental Protection Agency's (EPA's) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and to evaluate the accuracy and completeness of agency reporting.

Background

The Improper Payments Information Act of 2002 requires executive branch agencies to estimate the amounts of improper payments made each year. In July 2010, Congress enacted IPERA, which amended the Improper Payments Information Act of 2002 by redefining the definition of "significant improper payments" and strengthening agencies' reporting requirements. IPERA also requires Inspectors General to determine whether their agencies complied with IPERA and issue a report on that determination. Congress also enacted the Improper Payments and Recovery Improvement Act of 2012, which further enhanced improper payments requirements and gave agencies additional tools to address improper payments.

Inspectors General must annually determine whether agencies are in compliance with the six requirements identified in IPERA. Also, Office of Management and Budget (OMB) Circular A-123, Appendix C,¹ states that Inspectors General should evaluate the accuracy and completeness of agency reporting.

IPERA requires agencies to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments. IPERA defines significant improper payments as improper payments in the preceding year that may have exceeded the statutory threshold of both \$10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays, or \$100 million. IPERA states that an improper payment:

“(A) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and

¹ OMB Memorandum M-18-20, dated June 26, 2018, modified Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, and was effective starting in fiscal year (FY) 2018.

“(B) includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.”²

According to IPERA and OMB Circular A-123, Appendix C, agencies are required to annually estimate and report improper payments for programs and activities that are deemed susceptible to significant improper payments. The EPA annually collects and reports improper payments by type of activity in its Annual Financial Report (AFR).

In its FY 2018 AFR, the EPA reported an estimate of \$310,000 in improper payments. Table 1 summarizes the risk level for improper payments for each of the EPA’s programs.

Table 1: Program risk level

Program	Not susceptible to significant improper payments	Susceptible to significant improper payments	High priority
Commodities	X		
Contracts	X		
Clean Water State Revolving Fund	X		
Drinking Water State Revolving Fund	X		
Grants		X	
Hurricane Sandy		X	
Payroll	X		
Purchase Cards	X		
Travel	X		

Source: EPA FY 2018 AFR.

Responsible Offices

The Office of the Controller within the Office of the Chief Financial Officer (OCFO) develops, manages and supports the agency’s federal financial management program by interpreting fiscal legislation, maintaining fiscal operations and implementing governmentwide external reporting reforms. The OCFO formulates the EPA’s annual budget and performance plan, coordinates the EPA’s strategic planning efforts, develops the EPA’s annual Performance and Accountability Report, and implements the Government Performance and Results Act. The OCFO also provides financial services for the EPA and makes payments to EPA grant recipients, contractors and other vendors. The office provides policy, reports and oversight essential for the financial operations of the EPA. For

² 31 U.S.C. § 3321 note.

FY 2018, the OCFO's Las Vegas Finance Center led the grant improper payment reviews.

Scope and Methodology

We conducted this performance audit from November 2018 to April 2019 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether the EPA complied with IPERA during FY 2018, we reviewed the EPA's FY 2018 AFR and accompanying materials. We interviewed agency staff at EPA headquarters for the OCFO, Region 2 and the Office of Mission Support. We also interviewed OCFO staff from the Las Vegas Finance Center.

We gained an understanding of the processes, procedures and controls used for improper payment and recovery reporting across the EPA—including for grants and addressing the aftermath of Hurricane Sandy—and selected judgmental samples from each activity. We took steps to confirm the accuracy of the Las Vegas Finance Center's improper payment schedules with EPA system-generated support data for the grants payment stream. For EPA activities considered at the time of the audit to be susceptible to significant improper payments, we reviewed a sample of transaction testing reports and worksheets to identify improper payments. We also used data from EPA data systems—the Integrated Grants Management System and the Compass Data Warehouse.

Prior Audit Coverage

During this audit, we reviewed our prior IPERA report—EPA Office of Inspector General (OIG) Report No. [18-P-0153](#), *EPA Complied With Improper Payments Elimination and Recovery Act Requirements*, issued April 16, 2018. That report did not contain any recommendations and, thus, no follow-up was required.

Chapter 2

EPA Complied with IPERA

The EPA’s FY 2018 improper payment reporting complied with IPERA. IPERA established six requirements that agencies must meet to be compliant, and the EPA complied with all six requirements. However, the EPA needs to improve the accuracy of improper payments reporting for the grants payment stream as identified in Chapters 3 and 4 of this report. Table 2 shows the six IPERA requirements and what the EPA did regarding each requirement during FY 2018.

Table 2: EPA met the six requirements of IPERA

Requirement	Comply?	Description
Publish an AFR or Performance and Accountability Report for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website.	Yes	The EPA published the FY 2018 AFR on the agency website on November 15, 2018. ³
Conduct a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. § 3321 note (if required).	Yes	As required, the EPA conducted risk assessments for the following programs: Commodities, Contracts, Clean Water State Revolving Fund, Drinking Water State Revolving Fund, Payroll, Purchase Cards, and Travel.
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Yes	<p>The EPA performed program statistical sampling and published improper payment estimates for each of its two risk-susceptible programs, as follows:</p> <ul style="list-style-type: none"> • Grants • Hurricane Sandy <p>The grants program is susceptible to significant improper payments due to exceeding IPERA thresholds for improper payments for the risk assessment conducted in FY 2016.</p> <p>The Disaster Relief Appropriations Act of 2013 states that all funds received under that act are automatically deemed susceptible to significant improper payments. Since this act provides Hurricane Sandy aid, this program is deemed susceptible to significant improper payments. As a result, the EPA designed and implemented a statistical sampling plan for testing Hurricane Sandy expenditures.</p>

³ While the EPA did publish the AFR, the audit found issues with the agency’s grant reviews, which impact the improper payments reported.

Requirement	Comply?	Description									
Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).	Not Required	<p>The EPA reported in the AFR that it did not exceed the statutory threshold identified in IPERA of \$10 million and 1.5 percent of program outlays, or \$100 million, and therefore the corrective action plan is not required. Improper payment amounts and rates reported for risk-susceptible programs were the following for each program:⁴</p> <ul style="list-style-type: none"> • Hurricane Sandy – \$0.00, 0.00% • Grants – \$310,000, 0.01% 									
Publish, and meet, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	Yes	<p>The EPA published annual reduction targets for each of the two programs identified as susceptible to significant improper payments. The EPA met the annual reduction targets for FY 2018 AFR reporting for each program, as shown below:</p> <table border="1"> <thead> <tr> <th>Payment Stream</th> <th>Targeted rate (percent)</th> <th>Actual rate (percent)</th> </tr> </thead> <tbody> <tr> <td>Hurricane Sandy</td> <td>1.50</td> <td>0.00</td> </tr> <tr> <td>Grants</td> <td>2.95</td> <td>0.01</td> </tr> </tbody> </table>	Payment Stream	Targeted rate (percent)	Actual rate (percent)	Hurricane Sandy	1.50	0.00	Grants	2.95	0.01
Payment Stream	Targeted rate (percent)	Actual rate (percent)									
Hurricane Sandy	1.50	0.00									
Grants	2.95	0.01									
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or Performance and Accountability Report.	Yes	<p>The EPA reported gross improper payment rates of less than 10 percent for each program, as follows:</p> <ul style="list-style-type: none"> • Hurricane Sandy: 0.00 percent • Grants: 0.01 percent 									

Source: OIG analysis of EPA data.

⁴ We were unable to confirm whether or not the EPA exceeded the threshold for the grants program based on identified exceptions noted during our review of the OCFO transaction testing. However, the OCFO estimates that the improper payment error rate and estimated improper payments reported in the FY 2018 AFR are understated by at least 0.29 percent and \$7 million, respectively. (See Chapter 4.)

Chapter 3

OCFO's Grant Review Process Needs Improvement

The EPA's grant review process needs improvement because we found that grant reviewers did not follow established procedures or effectively test payments to verify whether the costs were allowable, allocable and reasonable as required. IPERA, 2 CFR Part 200, Appendix C of OMB Circular A-123, and the agency's *Standard Operation Procedure for Grant Improper Payment Review* establish requirements and direction for the review of grant improper payments. The issues noted occurred because the EPA transferred responsibility for improper payments testing of grants from the Office of Grants and Debarment to the Las Vegas Finance Center staff without providing adequate training and guidance. As a result, the EPA did not detect or report all improper payments, underestimating both the estimated improper payments error rate and estimated payments in the AFR. Our review of 25 payments, totaling \$4,418,774, identified an additional \$1,912,275 in payments as improper due to insufficient, or lack of, documentation.

Laws, Regulations and Agency Procedures Provide Requirements for IPERA Grant Reviews

IPERA requires agencies to publish improper payments estimates for all programs and activities identified as susceptible to significant improper payments. IPERA also requires agencies to include those estimates in the accompanying materials to the annual financial statement of the agency required under 31 U.S.C. § 3515, or similar provisions of law and applicable guidance of the OMB. The definition of improper payments as provided by IPERA⁵ is in Chapter 1 of this report.

OMB guidance explains that a “ ‘payment for an ineligible good or service’ includes a payment for any good or service that is not permitted under any provision of a contract, grant, cooperative agreement, lease or other funding mechanism.”⁶ OMB guidance also states that “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.”⁷

Further, 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart E—Cost Principles, establishes principles for determining the allowable costs incurred by nonfederal entities under federal awards. These principles must be used in determining the allowable costs of work performed by the nonfederal entity. Under these principles, costs must be necessary and reasonable for the performance of the

⁵ 31 U.S.C. § 3321 note.

⁶ OMB Circular A-123, Appendix C, Part I(A)(2).

⁷ OMB Circular A-123, Appendix C, Part I(A)(1).

federal award, and they must be allocable to the award to be allowable.⁸ “Disallowed costs” are defined as those “charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with applicable Federal statutes, regulations, or terms and conditions of the Federal award.”⁹ These principles define improper payments as follows:

[A]ny payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper.¹⁰

The OCFO’s *Standard Operating Procedure Grants Improper Payment Review* identifies 18 review procedures to determine whether costs are allowable or unallowable (i.e., proper or improper). This standard operating procedure (SOP) defines “disallowed costs” as “costs/expenses charged to an assistance agreement that the Federal awarding agency determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the award.”

Improvements Needed for the Grant Review Process

The Las Vegas Finance Center’s grant reviewers did not effectively test drawdowns to verify whether costs were allowable, allocable, reasonable and necessary, as required by the SOP and OMB Circular A-123, Appendix C. The grant reviewers performed improper payment testing without applying the 18 review methods defined in the OCFO’s SOP and did not complete the SOP’s “Exhibit 4: IPERA Review Checklist” to substantiate the procedures performed. In addition, the grant reviewers did not effectively test drawdowns to verify whether all the reviewed transactions were allowable, allocable, reasonable and necessary under the grant’s terms and conditions per 2 CFR Part 200, Subpart E.

The grant reviewers we interviewed were unfamiliar with the improper payments review process and informed the OIG auditors that they did not test for cost principle compliance (i.e., allowable, allocable, reasonable and necessary) as defined in 2 CFR Part 200, Subpart E. The reviewers indicated they were instructed to confirm only that the payments were issued to the correct recipient, at the correct amount, and were timely.

In the FY 2018 AFR, the EPA reported improper payments in the amount of \$310,000. However, during our review of 25 payments totaling \$4,418,774, we

⁸ 2 CFR § 200.403(a).

⁹ 2 CFR § 200.31.

¹⁰ 2 CFR § 200.53(b).

identified an additional \$1,912,275 in payments as improper due to insufficient, or lack of documentation (see Appendix A for further details).

The grant reviewers could not provide sufficient and appropriate evidence to allow OIG auditors to determine whether costs were allowable, allocable, reasonable and necessary as to the terms and conditions of the award. Specifically, drawdown documentation provided did not include support that allowed the OIG auditors to tie invoiced costs for payroll, travel and indirect costs to the sampled grant draw amount identified in the EPA award document.

The following subsections provide examples of specific drawdowns for which the EPA could not provide sufficient and appropriate evidence to the OIG auditors during our fieldwork visit to the Las Vegas Finance Center.

Grantee A

For Grantee A grant number PM98577308, draw #1, this drawdown included incurred costs of \$63,936 that were not allocable to this EPA award. Two payments—for \$22,678 and \$2,708—were allocable to grant number BG98543214, also issued to the Grantee A. Two additional payments— for \$34,438 and \$4,112—were allocable to a different award.

Grantee B

For Grantee B grant number RD83555401, draws #1–3 included three payments totaling \$100,461 that the OIG auditors determined to be improper payments because they were not allocable to this grant (see Table 3).

Table 3: Grantee B payments identified as improper payments

Draw #	Voucher date	Grant number	Drawdown amount selected for OIG review	Amount deemed improper
1	9/19/16	RD83555401, draw #1	\$4,524	\$4,524
2	9/05/17	RD83555401, draw #2	44,268	38,160
3	7/05/17	RD83555401, draw #3	61,212	57,777
Totals			\$110,004	\$100,461

Source: OIG analysis of EPA data.

For draw #1, the grantee provided invoice number 90264814, in the amount of \$4,524, as supporting documentation. However, there is no evidence on the invoice to associate this cost with EPA grant number RD83555401.

For draw #2, the grantee provided one summary sheet and six invoices to support the draw in the amount of \$44,268. However, only invoice #3479, for \$6,108, clearly indicates the incurred costs are associated with EPA grant number RD83555401.

For draw #3, the grantee provided one summary sheet and 10 invoices to support the draw amount of \$61,212. However, only the following supporting invoices could be determined as allocable to EPA grant RD83555401: invoice #2916 for \$2,652 and #3316 for \$784 (calculation difference with total amount in Table 3 due to rounding).

Grantee C

For Grantee C grant number BG99182905, the documentation that the EPA provided included \$183,303 for payroll costs that were charged to the EPA award. However, the payroll documentation did not include the actual hours worked; therefore, the grant reviewer could not compare the actual hours worked and the pay rate to verify that the amount requested for reimbursement was accurate, as required in the SOP. The documentation provided was insufficient for the OIG auditor to determine whether the costs were allocable, allowable and reasonable. The EPA should have identified the \$183,303 as an improper payment due to insufficient, or lack of documentation.

Grantee D

For Grantee D grant number PA00J91201, the drawdown was for \$555,839. However, we could only identify one invoice, #14956, for \$7,982, that was associated with the grant. The grant reviewer did not check the documentation provided for allowability, allocability and reasonableness, as that individual did not have an understanding of 2 CFR 200. The documentation provided was insufficient for the OIG auditor to determine whether the costs were allocable, allowable and reasonable. Therefore, \$547,857 (\$555,839 minus \$7,982) should have been reported as an improper payment due to insufficient, or lack of documentation.

Grantee E

For Grantee E grant number C900178011, with a drawdown request for \$117,442, the grantee provided a summary spreadsheet that identified that the costs were associated with grant number C900178011. However, we could not find any invoices in the documentation in the grantee package that tied to the draw. Therefore, the \$117,442 should be reported as an improper payment due to insufficient documentation.

Reviewers Were Not Adequately Trained

In FY 2018, the EPA transitioned the Advanced Administrative Monitoring reviews program (i.e., transaction testing for improper payments) responsibilities from the Office of Grants and Debarment (within what is now the Office of Mission Support) to the OCFO. In conjunction with this realignment, the OCFO

created and implemented the *Standard Operating Procedure Grants Improper Payment Review* that describes how each office will implement and monitor internal control activities within the payment stream to prevent, identify and recover improper payments; and report the results of improper payment activities to the President and Congress annually through the AFR.

While OCFO grant reviewers interviewed indicated they did receive training, they did not believe the training adequately prepared them to review grants to test for improper payments as required by IPERA. The grant reviewers interviewed informed the OIG auditors that they either could not recall the SOP or did not use the SOP for guidance. The grant reviewers did not complete the “Exhibit 4, IPERA Review Checklist,” and indicated that they were instead provided an abbreviated checklist. Moreover, the Las Vegas Finance Center’s Director confirmed that both the SOP and Exhibit 4 checklist were not finalized until after the grant reviews were concluded and an abbreviated checklist was used for the reviews.

Additionally, the grant reviewers interviewed told the OIG auditors that they did not receive sufficient comprehensive training regarding cost principles and audit requirements outlined in 2 CFR Part 200 to verify payments in compliance with IPERA. The grant reviewers stated that the instructions from OCFO trainers were to just start reviewing the grant drawdowns and ask questions as needed. One of the reviewers commented that the reviewers did not know what they were looking for or doing so they did not know what to ask. We also noted during the audit that the OCFO developed different iterations of the SOP, which hindered training. The other SOPs were:

- *Interim Standard Operating Procedure Grants Improper Payment Review*, issued in November 2017, which identifies 24 specific areas of review.
- *Standard Operating Procedure Grants Improper Payment Review*, issued in February 2018.

In our opinion, due to the OCFO’s vague and undeveloped training, both OCFO management and staff appear to be confused as to what SOP, Exhibit 4 and abbreviated checklist grant reviewers should use during the grant review process. Therefore, the OCFO’s grant reviewers did not adequately perform the procedures to determine whether the payments under review were compliant with IPERA, nor could they provide sufficient and appropriate evidence to allow the OIG auditors to determine/verify whether costs were compliant with IPERA.

Improper Payments Underestimated

The EPA’s improper error rate and estimated improper payments were understated for FY 2018. In the FY 2017 AFR, the EPA reported \$12.37 million in estimated improper payments for the grant’s payment stream. The FY 2017 AFR also stated that the improper payment rate for grants could increase

substantially in FY 2018 due to the EPA reviewing five times as many recipients, resulting in more improper payments. In FY 2018, the EPA transferred the responsibility for leading the grant improper payment reviews from the Office of Grants and Debarment to the Office of the Controller. EPA personnel said that added emphasis would be placed on the detection of recipient overdraws, likely resulting in more errors identified. However, for FY 2018, inadequate grant reviews resulted in the EPA reporting only \$310,000 in estimated improper payments—a decrease of nearly \$12 million from previous estimates of improper payments during FY 2017. We conclude that, due to the lack of training and guidance, improper payments were not identified and/or reported, leading to understating both the improper error rate and estimated improper payments in the EPA’s FY 2018 AFR.

Recommendation

We recommend that the Chief Financial Officer:

1. Revise the Office of the Chief Financial Officer’s grant improper payments review process to include internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments.

Agency Response and OIG Evaluation

The agency concurred with Recommendation 1 and stated that it completed corrective action in April 2019. The Chief Financial Officer indicated that OCFO will confirm and document all reviewers’ knowledge of the IPERA grants review process. In addition, for FY 2019, the SOP was revised in February 2019 to streamline the IPERA training. In April 2019, the OCFO provided additional training to reviewers to ensure proficiency in identifying and reporting questioned costs.

The corrective action meets the intent of the recommendation and the recommendation is considered resolved. We will follow up on the corrective action during the FY 2019 IPERA audit.

Chapter 4

EPA Did Not Test All Grant Payments for Improper Payments

The EPA did not sufficiently test for improper payments. Per OMB Circular A-123, Appendix C, Part I(D)(1), if an agency determines a program is susceptible to significant improper payments, it must design and implement an appropriate statistical sampling and estimation method to produce statistically valid improper payment estimates and submit this methodology to the OMB. The EPA's sampling methodology required a minimum sample size of 225 cash draws spread across 75 recipients. However, the EPA did not test three of 225 statistically selected grant payments, totaling \$207,991, to determine whether the payments were improper, as stipulated in IPERA. This occurred because three grants were with the United Nations Environmental Programme (UNEP), which declined to submit the requested supporting evidence. However, OMB Circular A-123, Appendix C, states that "when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment."¹¹ Therefore, the OCFO should have reported \$207,991 as improper payments.

EPA's Sampling Methodology Required 225 Samples to Be Tested

IPERA requires federal agencies to assess all programs or activities for their risk for improper payments. In FY 2016, the EPA determined that the grants program was susceptible to significant improper payments. Based on OMB Circular A-123, Appendix C, Part I(D)(1), if an agency determines a program is susceptible, it must design and implement an appropriate statistical sampling and estimation method to produce statistically valid improper payment estimates and submit the methodology to the OMB.

The EPA has identified grants as a program susceptible to significant improper payments under IPERA. The EPA's methodology for the grants requires a minimum sample size of 225 cash draws spread across 75 recipients to be reviewed for improper payments. EPA foreign grant recipients, including Public International Organizations like UNEP, fall within the grant program. The EPA identified to the OMB that foreign grant recipients would be tested as part of its statistical sampling methodology.

¹¹ OMB Circular A-123, Appendix C, Part I(A)(1).

EPA Did Not Test All Payments for Improper Payments

The EPA did not test three of the 225 statistically selected grant payments to determine whether they were proper as required under IPERA. Nevertheless, the EPA determined that these payments to UNEP were proper without receiving any supporting documentation from the recipient to validate that the costs incurred were allowable, allocable, necessary and reasonable as stipulated under 2 CFR Part 200, Subpart E—the uniform cost principles for federal awards. The three payments, totaling \$207,991 (see Table 4), were not included in the improper payments estimates in the accompanying materials to the agency’s FY 2018 annual financial statement as required under 31 U.S.C. § 3515.

Table 4: UNEP payments not reviewed and identified as proper payments

Document date	Grant number	Payment
9/19/16	X4-83616001	\$18,000
4/18/16	X4-83616001	60,000
9/19/16	X4-83616001	129,991
Total		\$207,991

Source: OIG analysis of EPA data.

OMB Circular A-123, Appendix C, Part I(A)(1), states that “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment.” This situation occurs when there is not supporting documentation to verify the accuracy of a payment identified in the improper payments testing sample. The EPA was unable to obtain documentation concerning the three payments made to UNEP under the cooperative agreement and should have reported these as improper payments and identified the root cause as “insufficient documentation.”¹²

EPA Determined UNEP Grants Did Not Fall Within Scope of IPERA

In response to the OCFO’s request for documents, UNEP declined to submit the requested supporting evidence (documents), claiming that it was exempt from supplying supporting documentation to the EPA. The OCFO sought guidance from the EPA’s Office of General Counsel and considered input from the grant review team. The Office of General Counsel issued an opinion stating that Public International Organizations such as UNEP would not fall within the scope of IPERA review because the grants or cooperative agreements awarded to such

¹² A lack of a substantive response from an entity for IPERA purposes potentially could be a separate root cause in future reporting. In the U.S. Government Accountability Office (GAO) report *Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes* (GAO-18-377), issued May 2018, the GAO noted that the OMB guidance was unclear on how agencies should treat nonresponse cases for improper payment estimation purposes (i.e., when contacting outside entities for information for improper payment testing but ultimately not receiving a response). As a result of the GAO’s recommendation, an OMB Senior Policy Advisor is noted as stating that the OMB plans to update its guidance to direct agencies to treat nonresponse cases as improper payments and to include a new category for tracking such cases.

organizations do not rise to IPERA's definition of a program that may be susceptible to significant improper payments. This opinion appears to misinterpret OMB guidance and the EPA's own IPERA methodology submitted to the OMB. However, the OCFO followed the opinion and decided to consider the payments as proper payments.

Grants Improper Payments Rate Understated

We disagree with the Office of General Counsel's opinion. Without sufficient documentation to determine whether UNEP payments are allowable, allocable, reasonable and necessary, the OCFO should have reported these payments as improper, and identified the root cause as insufficient documentation. Failing to recognize and report \$207,991 in improper payments resulted in understating both the improper payments error rate and estimated improper payments in the FY 2018 AFR. In addition, excluding UNEP from the improper payments review creates uncertainties as to the statistical validity of the OCFO's statistical sample methodology for the grant payment stream.

Recommendation

We recommend that the Chief Financial Officer:

2. Comply with the EPA's sampling and estimation plan annually submitted to the Office of Management and Budget.

Agency Response and OIG Evaluation

The agency concurred with Recommendation 2 and stated that corrective action was completed in April 2019. The agency agreed with the OIG's overall conclusion that the EPA must comply with the EPA's sampling and estimation plan annually submitted to the OMB. In addition, the agency indicated that, moving forward, if a selected sample is deemed exempt from IPERA, it will replace that sample with a statistically valid sample and revise the population criteria for future tests.

The corrective action meets the intent of the recommendation and the recommendation is considered resolved. We will follow up on the corrective action during the FY 2019 IPERA audit.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	11	Revise the Office of the Chief Financial Officer's grant improper payments review process to include internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments.	R	Chief Financial Officer	4/30/19	\$1,912
2	14	Comply with the EPA's sampling and estimation plan annually submitted to the Office of Management and Budget.	R	Chief Financial Officer	4/30/19	

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Sample of Grant Drawdowns Audited

Voucher date	Grant number	Drawdown amount selected for OIG review	Amount deemed improper	Grantees as cited in report
4/05/16	GA98204409	\$56,824.00	-	
9/05/17	RD83555401, draw #2	44,268.36	\$38,160.42	Grantee B
8/11/17	EM99T37601	600,866.94	600,866.94	
3/13/17	BG97872917	301,367.98	-	
7/17/17	V01J12201	1,067,594.89	-	
7/05/17	RD83555401, draw #3	61,211.83	57,776.58	Grantee B
9/19/16	RD83555401, draw #1	4,524.00	4,524.00	Grantee B
6/02/17	BF00D47516	276,335.70	-	
5/17/17	BG99182905	183,303.00	183,303.00	Grantee C
3/06/17	BG97811216	43,923.00	929.95	
1/27/17	GL00E01436	68,846.19	-	
12/19/16	RD83542102	18,888.31	-	
12/15/16	PA00J91201	555,839.00	547,856.65	Grantee D
12/15/16	XP96664701	73,392.56	73,392.56	
4/20/17	GA00J59701	30,000.00	-	
11/03/16	XP00E01473	109,690.06	-	
10/21/16	PM98577308	214,222.00	63,935.92	Grantee A
9/12/16	RD83587101	231,448.77	-	
8/04/16	PB98492413	16,095.49	16,095.49	
7/20/16	TX97883902	104,497.24	-	
7/13/16	GA00J61201	30,202.11	-	
6/23/16	C900178011	117,442.00	117,442.00	Grantee E
9/19/16	X4-83616001	18,000.00	18,000.00	UNEP
4/18/16	X4-83616001	60,000.00	60,000.00	UNEP
9/19/16	X4-83616001	129,991.00	129,991.00	UNEP
Totals		\$4,418,774.43	\$1,912,274.51	

Source: OIG analysis of EPA data.

Agency Response



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

MAY 17 2019

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the May 3, 2019, Office of Inspector General's Draft Report, "EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed," Project No. OA&E-FY19-0037

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

TO: Charles J. Sheehan, Acting Inspector General
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendations presented in this Office of Inspector General Draft Report, Project No. OA&E-FY19-0037.

RESPONSE TO RECOMMENDATIONS:

RECOMMENDATION 1: *Revise the Office of the Chief Financial Officer's grants improper payments review process to include internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments.*

- The agency concurs. The Office of the Controller will confirm and document all reviewers' knowledge of the Improper Payments Elimination and Recovery Act grants review process. In addition for FY 2019, the standard operating procedure was revised in February 2019 to streamline the IPERA training. In April, the OCFO provided additional training to reviewers to ensure proficiency in identifying and reporting questioned costs. The corrective action for this recommendation was completed on April 30, 2019.

RECOMMENDATION 2: *Comply with EPA's sampling and estimation plan annually submitted to the Office of Management and Budget.*

- The agency concurs. We are in compliance with the grants sampling methodology which employs a complex sampling design that maximizes efficiency of limited agency resources, optimizes the accuracy of the agency's statistical estimate, and complies with the OMB's Memorandum M-18-20. The agency's sampling methodology is statistically valid and sound. Prior to sample selection, the agency vets the population criteria to ensure that all applicable draws are captured for possible selection and testing. However, moving forward if a selected sample is deemed exempt from the IPERA, we will replace that sample with a statistically valid sample and revise our population criteria for future tests. The corrective action for this recommendation was completed on April 30, 2019.

CONTACT INFORMATION

If you have any questions regarding this response, please contact Anette Morant, Agency Audit Follow Up Coordinator, on (202) 566-3671, or via email morant.annette@epa.gov.

cc: David Bloom
Carol Terris
Jeanne Conklin
Richard Gray
Ed Shields
Michael J. Petscavage III
OCFO Senior Managers
Kevin Chaffin
Doug LaTessa
Patrick McIntyre
Aileen Atcherson
Sherri' L. Anthony
Annette Morant
Benita Deane

Distribution

The Administrator
Deputy Administrator
Chief of Staff
Chief of Operations
Deputy Chief of Operations
Chief Financial Officer
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Deputy Chief Financial Officer
Associate Chief Financial Officer
Controller, Office of the Controller, Office of the Chief Financial Officer
Deputy Controller, Office of the Controller, Office of the Chief Financial Officer
Director, Policy, Analysis and Accountability Division, Office of the Chief Financial Officer
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer