



U.S. ENVIRONMENTAL PROTECTION AGENCY

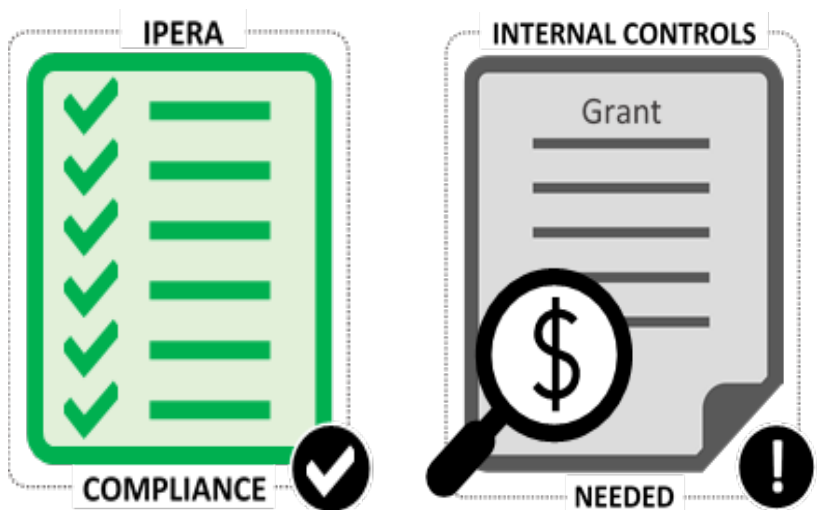
OFFICE OF INSPECTOR GENERAL

Compliance with the law

EPA Complied with Improper Payments Legislation, but Internal Controls Need Substantial Improvement to Ensure More Accurate Reporting

Report No. 20-P-0167

May 13, 2020



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Abbreviations

AFR	Agency Financial Report
C.F.R.	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IP	Grants Improper Payment Review
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 Procedures
U.S.C.	United States Code

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

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At a Glance

Why We Did This Project

The Improper Payments Elimination and Recovery Act of 2010, as modified by the Improper Payments Elimination and Recovery Improvement Act of 2012, requires that each fiscal year, inspectors general determine whether their respective agency complied with the law. Known as IPERA, the Act 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 compliance with these requirements.

This report addresses the following:

- *Compliance with the law.*

This project addresses a key EPA [management challenge](#):

- *Improve fulfillment of reporting requirements.*

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List of [OIG reports](#).

EPA Complied with Improper Payments Legislation, but Internal Controls Need Substantial Improvement to Ensure More Accurate Reporting

What We Found

The EPA complied with all six IPERA requirements for fiscal year 2019. However, the EPA needs to improve the accuracy and completeness of improper payments reporting for the grant payment stream.

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

The EPA's estimated improper payments and the improper payment error rate were understated for FY 2019. In the FY 2019 Agency Financial Report, the EPA reported \$22.49 million in estimated improper payments. However, our review of 20 of the 225 payments that the EPA tested identified an additional \$571,469.19 in improper payments due to insufficient or a lack of supporting documentation. We found that EPA reviewers were not adhering to the Agency's improper-payment-review policies and that they were not sufficiently trained in grant cost regulations and the Agency's improper payment review process.

Improved review methods for grant funds will aid the Agency in more accurately identifying estimated improper payments and potentially lead to better use of funds for environmental programs.

Recommendations and Planned Agency Corrective Actions

We recommend that the chief financial officer revisit the previous recommendation in EPA OIG Report No. 19-P-0163, *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*, to implement internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments, and verify all corrective actions are completed.

The EPA agreed with our recommendation and stated that the corrective action that was recommended in our prior report was completed in April 2019. The Office of the Chief Financial Officer stated that it updated the IPERA Standard Operating Procedures to include an annual training requirement for all IPERA grant reviewers on the Grants Improper Payment Review SOP checklist and the Office of Mission Support Grants Specialist Module. Completion of this training must be certified in writing to the IPERA grant review lead prior to receiving sample recipient folders for review. However, we have not evaluated the updated Grants Improper Payment Review SOP, nor will we be able to determine whether reviewers are knowledgeable and proficient in the identification and reporting of improper payments until we conduct our next IPERA audit. Therefore, we consider the recommendation not implemented.



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

THE INSPECTOR GENERAL

May 13, 2020

MEMORANDUM

SUBJECT: EPA Complied with Improper Payments Legislation, but Internal Controls Need Substantial Improvement to Ensure More Accurate Reporting
Report No. 20-P-0167

FROM: Sean W. O'Donnell *Sean W O'Donnell*

TO: David Bloom, Deputy Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was OA&E-FY20-0025. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer oversees the testing of grant payments for improper payments and is responsible for the issues discussed in this report.

Action Required

This report contains an unresolved recommendation. In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the deputy chief financial officer and the assistant inspector general for Audit and Evaluation. If resolution is still not reached, the deputy chief financial officer is required to complete and submit a dispute resolution request.

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

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Chapter 1

Introduction

Purpose

The purpose of this audit is to report on the U.S. Environmental Protection Agency's compliance with the Improper Payments Elimination and Recovery Act of 2010, known as 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 requires inspectors general to determine and issue a report on whether their agencies complied with the Act. Congress also enacted the Improper Payments Elimination and Recovery Improvement Act of 2012, which further enhanced improper payments requirements and gave agencies additional tools to address improper payments. In March 2020, Congress passed the Payment Integrity Information Act of 2019, which repealed and replaced the Improper Payments Information Act of 2002, IPERA, and the Improper Payments and Recovery Improvement Act of 2012. Because our audit examined FY 2019 activity, this report applies the statutory requirements in place for the duration of FY 2019 rather than requirements of the Payment Integrity Information Act of 2019.

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 (1) \$10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays, or (2) \$100 million. Defined by the Office of Management and Budget in Circular A-11, Section 20, program outlays are payments to liquidate obligations and are the measure of government spending.

The following is how IPERA defines the term "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

- (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.

Appendix C to OMB Circular A-123 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.”

According to IPERA and Appendix C to OMB Circular A-123, 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 activity type in its Agency Financial Report.

In its FY 2019 AFR, the EPA reported an estimate of \$22.49 million in improper payments. The EPA stated in the payment integrity section that “[f]or the Agency’s grants payment stream, overpayments [improper payments] principally consist of unallowable costs or lack of supporting documentation.” Table 1 has a summary of the risk level for improper payments for each of the EPA’s programs involving payments.

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		
2018 Disaster Relief	X		

Source: EPA FY 2019 AFR.

IPERA required Offices of Inspector General to annually determine whether agencies are complying with the six requirements found in the Act. Furthermore, Appendix C to OMB Circular A-123 states that inspectors general should also evaluate the accuracy and completeness of agency reporting.

In July 2019, the Council of the Inspectors General on Integrity and Efficiency, the oversight body for inspectors general, issued guidance recommending that in

addition to inspectors general determining compliance with the six requirements in the Act, they should also evaluate the accuracy and completeness of agency reporting, as well as the agency's performance in reducing and recapturing improper payments.

Responsible Offices

The Office of the Controller 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 Office of the Chief Financial Officer 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 grant recipients, contractors, and other vendors. The Office provides policy, reports, and oversight essential for the financial operations of the EPA. The OCFO's Las Vegas Finance Center performed the grant-improper-payment reviews in FY 2019.

Scope and Methodology

We conducted this performance audit from November 2019 to March 2020 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.

We assessed internal controls necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles significant to the audit objective (Appendix A). However, because our audit was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

To determine whether the EPA complied with IPERA, we reviewed the EPA's FY 2019 AFR and accompanying materials. We interviewed OCFO staff at EPA headquarters, Research Triangle Park, and Region 6, as well as staff from the Office of Administration and Resources Management and Office of Grants and Debarment.

We gained an understanding of the processes, procedures, and controls used for improper payment detection, reporting, and recovery reporting across the EPA. For the grant's payment stream—the only program considered at the time of the audit to be susceptible to significant improper payments—we reviewed a

judgmentally selected sample of transaction testing reports and worksheets to identify improper payments. We also used data from the EPA's Integrated Grants Management System and the Compass Data Warehouse. We consulted legal counsel to determine which laws and regulations were significant with respect to the audit objectives.

Prior Audit Coverage

During this audit, we reviewed OIG Report No. [19-P-0163](#), *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*, issued May 31, 2019. That report made two recommendations: (1) revise the OCFO'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; and (2) comply with the EPA's sampling and estimation plan annually submitted to the OMB.

The Agency concurred with both recommendations and stated that it completed the corrective actions for both in April 2019. The OIG considers Recommendation 1 not implemented and Recommendation 2 completed.

Chapter 2

EPA Complied with IPERA

The EPA’s FY 2019 improper payment reporting complied with all six IPERA requirements. However, the EPA needs to improve the accuracy and completeness of improper payments reporting for the grants payment stream, as identified in Chapter 3 of this report. Table 2 lists the six IPERA requirements, the actions the EPA took for each requirement, and the OIG’s determination for each requirement during FY 2019.

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 the OMB on the Agency’s website.	Yes	The EPA published the FY 2019 AFR on the Agency’s website on November 19, 2019.
Conduct a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. § 3321 note (2019) (if required).	Yes	The EPA conducted a qualitative risk assessment for the Agency’s 2018 Disaster Relief Funding. The EPA conducted risk assessments in 2018 for its other low-risk programs, commodities, contracts, Clean Water State Revolving Fund, Drinking Water State Revolving Fund, payroll, purchase cards, and travel. No risk assessments were due in 2019, as they are required every three years.
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Yes	The EPA performed program statistical sampling and published improper payment estimates for grants, its only risk-susceptible program.
Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).	Not Required	The EPA reported in the FY 2019 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. Therefore, the corrective action plan is not required. Improper payment amounts and rates reported for risk-susceptible programs were \$22.49 million and 1.25 percent of program outlays for grants.

Requirement	Comply?	Description						
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 the grants program because this program was identified as susceptible to significant improper payments. The EPA met the annual reduction targets for the FY 2019 AFR:</p> <table border="1" data-bbox="837 420 1468 514"> <thead> <tr> <th data-bbox="837 420 1073 485">Payment stream</th> <th data-bbox="1073 420 1289 485">Targeted rate (percent)</th> <th data-bbox="1289 420 1468 485">Actual rate (percent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="837 485 1073 514">Grants</td> <td data-bbox="1073 485 1289 514">1</td> <td data-bbox="1289 485 1468 514">^a1.25</td> </tr> </tbody> </table>	Payment stream	Targeted rate (percent)	Actual rate (percent)	Grants	1	^a 1.25
Payment stream	Targeted rate (percent)	Actual rate (percent)						
Grants	1	^a 1.25						
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	The EPA reported gross improper payment rates of 1.25 percent for grants.						

Source: OIG analysis of EPA data.

^a Appendix C to OMB Circular A-123 states that if a sampling plan is statistically valid and meets at least a 3 percent precision level at a 95 percent confidence interval, a reduction target should be counted as achieved as long as the lower bound for the confidence interval is equal to or less than the reduction target. The lower bound of the confidence interval for the Grants program was 0.73 percent.

Chapter 3

OCFO's Grant Review Process Needs Improvement

The EPA's grant process for measuring and reporting improper payments needs improvement. IPERA, applicable regulations, Appendix C to OMB Circular A-123, and the OCFO's Grants Improper Payment Review Standard Operating Procedure, known as IP SOP, established the reviewing, measuring, and reporting requirements for improper payments. We found that reviewers did not effectively test drawdowns to verify that grant payments met cost-principle requirements, per regulation. This occurred because reviewers who took over this responsibility from another office in FY 2018 either did not receive adequate training and guidance or did not follow the IP SOP. As a result, the EPA did not detect or report all improper payments, which resulted in underestimating both the improper payment amount and error rate in the FY 2019 AFR.

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

IPERA required agencies to publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments. IPERA also required agencies to include those estimates in the accompanying materials to the agency's annual financial statement required under 31 U.S.C. § 3515, or similar provisions of law and applicable guidance of the OMB.

Subpart E of 2 C.F.R. Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 under a federal award. Part 200 defines "disallowed costs" as charges to a federal award that the federal awarding agency determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the federal award. This regulation also states that an improper payment includes:

[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.

In light of these definitions, payment for a disallowed cost constitutes an improper payment.

OMB guidance explains that the term “payment for an ineligible good or service”—as used in the definition of improper payment—“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.” Part I(A)(1) of Appendix C to OMB Circular A-123 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.”

The IP SOP lists review procedures to identify improper payments. It also defines an “improper payment” as “any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements,” or “when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.” To find improper payments, the IP SOP directs personnel to identify questioned costs, which are costs claimed to a grant that lacks adequate supporting documentation. These questioned costs are referred to the Office of Grants and Debarment to make a final determination about whether they should be disallowed.

OCFO Did Not Detect, Identify, and Report an Additional \$571,469 in Improper Payments in the FY 2019 AFR

In the FY 2019 AFR, the EPA identified grant program improper payments in the amount of \$516,913.26. However, during our analysis of 20 of 225 payments totaling \$2,770,445.36, we identified and confirmed with the Office of Grants and Debarment and grant management officers an additional \$571,469.19 in improper payments that occurred due to insufficient or lack of supporting documentation.

Reviewers Did Not Follow Procedures or Were Not Adequately Trained

The grant reviewers either did not adhere to the IP SOP or were not adequately trained to discover questioned costs when performing improper payment testing. As shown in Table 3, of the 20 grants in our OIG sample, 94 percent of the additional improper payments were found in files where reviews were not compliant with the IP SOP.

Table 3: OIG sampled drawdown analysis results

Draw number	Grant number	Drawdown amount selected for OIG review	Additional improper payments identified during OIG review	OCFO grant review complied with IP SOP
1	RD83616901	\$9,107.82	\$1,865.07	No
2	GL00E01567	223,486.14	0	No
3	TR83684001	98,417.89	32,966.92	No
4	AI97848901	58,633.18	58,633.18	No
5	CB96331001	293,313.41	293,313.41	No
6	BL97813001	80,158.19	80,158.19	No

Draw number	Grant number	Drawdown amount selected for OIG review	Additional improper payments identified during OIG review	OCFO grant review complied with IP SOP
7	CB96342701	32,241.41	26,834.92	No
8	X401F04901	30,489	13,661.75	No
9	PM00T86701	275,905	0	Yes
10	A00408215	290,000	0	Yes
11	GL00E01435	121,408.83	0	Yes
12	V00E01309	222,655.30	0	Yes
13	V00E01070	14,560.71	0	Yes
14	BG98852317	239,174.25	0	Yes
15	OS83922701	95,261.22	4,487.18	No
16	PA01J01101	35,361.35	25,910.05	No
17	BG97872917	229,848.20	0	Yes
18	C999T32101	54,398.66	0	Yes
19	BG99267204	219,795.37	33,638.52	No
20	GA00J98401	146,229.43	0	No
Total		\$2,770,445.36	\$571,469.19	

Source: OIG analysis of EPA data.

For ten out of the 20 sampled OIG reviews, grant reviewers could not provide sufficient evidence to support that the amounts paid met cost principles (i.e., allowable, allocable, reasonable, and necessary), as required by 2 C.F.R. Part 200 Subpart E.

In addition, OCFO reviewers did not receive any training on the IP SOP, aside from what they received for the FY 2018 improper payment review. The OCFO’s supervisory accountant acknowledged:

Nobody at LVFC [the Las Vegas Finance Center] (neither primary nor secondary reviewers) received any additional training for the FY19 reviews beyond what they had received for the FY18 reviews, other than the two informal “lessons learned” sessions conducted internally in March and November 2018.

In OIG’s Report No. 19-P-0163, we recommended that the OCFO revise the “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.” However, we found that the OIG’s recommendation from last year’s improper payment audit was not implemented, despite the OCFO’s concurrence and confirmation while last year’s audit was being conducted that corrective action was taken.

During this year’s audit, we requested that the OCFO provide evidence to support that corrective action was implemented. As of this report date, the OCFO has not supplied that evidence. This lack of documented implementation caused a continuation of inadequately trained reviewers, as evidenced above.

Improper Payments Underestimated

The EPA's improper error rate and estimated improper payments were understated for FY 2019. We found additional improper payments of at least \$571,469.19. The deficiencies in the OCFO's review process prevented the Office from calculating and reporting a correct and complete improper payment rate and amount for the grant payment stream.

Based on the OIG's calculations, the OCFO should have reported an error rate equal to or greater than 3.97 percent, not 1.25 percent as reported in the FY 2019 AFR. It also should have reported estimated improper payments equal to or greater than \$71.31 million, not \$22.49 million as reported in the FY 2019 AFR. This leads the OIG to question the accuracy and completeness of the improper payments reported, which we are charged with considering.

When the EPA reports unreliable improper payment estimates in the AFR, Agency leadership, Congress, and the public cannot be assured that the EPA has the necessary resources, appropriate measures, and focused strategies to reduce its improper payments. The EPA needs to improve internal controls over the grant review process so that improper payments are accurately reported.

Recommendation

We recommend that the chief financial officer:

1. Revisit the previous recommendation in EPA OIG Report No. 19-P-0163, *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*, to implement internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments, and verify all corrective actions are completed.

Agency Response and OIG Assessment

The EPA concurred with the OIG's recommendation and stated that the corrective action was implemented in April 2019. The OCFO stated that it updated the IP SOP to include an annual training requirement for all IPERA grant reviewers, which includes training on the IP SOP checklist and the Office of Mission Support Grants Specialist Module. Completion of this training must be certified in writing to the IPERA grant review lead prior to receiving sample recipient folders for review. However, we have not evaluated the updated IP SOP, nor will we be able to determine whether reviewers are knowledgeable and proficient in the identification and reporting of improper payments until we conduct our next IPERA audit which we are charged in conducting. Therefore, we consider the recommendation not implemented. As part of our 2020 IPERA audit, we will assess the implementation of this corrective action.

Status of Recommendation and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	10	Revisit the previous recommendation in EPA OIG Report No. 19-P-0163, <i>EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed</i> , to implement internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments, and verify all corrective actions are completed.	U	Chief Financial Officer		

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Internal Control Assessment

This table helps to obtain an understanding of which internal control is significant to the audit objectives.

Which internal control <u>components</u> are significant to the audit objective(s)? (mark box to left)		Which internal control <u>principles</u> are significant to the audit objective(s)? (mark box to left)	
	Control Environment E.g., one or more engagement objectives assess the structure, roles, or responsibilities that management designs and assigns to personnel or standards of conduct, training, competence, or accountability of personnel.		1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
			2. The oversight body should oversee the entity's internal control system.
			3. Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve the entity's objectives.
			4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
			5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
X	Risk Assessment E.g., one or more engagement objectives assess the organization's definition of objectives or identification or analysis of risk.		6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
		X	7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
		X	8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
			9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
X	Control Activities E.g., one or more engagement objectives assess the design or implementation of the organization's policies, procedures, actions, or information systems that have been established to achieve its objectives and respond to risk.		10. Management should design control activities to achieve objectives and respond to risks.
		X	11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
			12. Management should implement control activities through policies.
	Information and Communication E.g., one or more engagement objectives assess the organization's use of information to communicate within the organization or to external parties.		13. Management should use quality information to achieve the entity's objectives.
			14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
			15. Management should externally communicate the necessary quality information to achieve the entity's objectives.
X	Monitoring E.g., one or more engagement objectives assess the organization's identification of internal control deficiencies or corrective actions of deficiencies.	X	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
		X	17. Management should remediate identified internal control deficiencies on a timely basis.

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

April 9, 2020

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Audit Report, Project No. OA&E-FY20-0025, “*EPA Complied with Improper Payments Legislation but Needs Better Internal Controls to Improve Reporting,*” dated March 27, 2020

FROM: David A. Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

TO: Khadija E. Walker, Director
Contract and Assistance Agreement Directorate

Thank you for the opportunity to respond to the subject draft audit report. The following is a summary of the U.S. Environmental Protection Agency’s overall position, along with its position on the report’s recommendation. We have provided a high-level corrective action and the date of completion.

AGENCY’S OVERALL POSITION

The EPA concurs with the OIG’s recommendation. The Office of the Chief Financial Officer has provided training and continues to improve upon the training in establishing this program. As stated during previous discussions with the OIG’s staff, since October 2017, the scope of these reviews, as described in the OCFO Review Standard Operating Procedures, is to determine if selected grant payments were made to the right recipient, in the right amount, for the right purpose, and within the budgetary time period as required by the *Improper Payments Elimination and Reduction Act*. The determination of whether a grant payment is compliant with federal grant regulations is a different review and outside the scope of the OCFO’s IPERA audit.

The OIG stated in this report that, the “OCFO reviewers did not receive any training on the SOP, aside from what they received for the FY 2018 improper payments review....” and that “As of this report date, the OCFO has not supplied that evidence.” However, in April 2019, as a result of the prior recommendation cited in OIG Report No. 19-P-0163, *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*, the OCFO completed the prior

recommendation by providing an OCFO-led training to all IPERA grant reviewers in preparation for the FY 2020 reviews. The OCFO provided the OIG information confirming training held in April 2019. In addition to this training, the OCFO completed the following training efforts:

- The Office of the Controller staff participated in multiple training sessions. The dates were: October 2017, November 2019 and January 2020.
- The OC’s staff participated in two lessons learned sessions. The dates were: March 2018 and November 2018. The OC provided the OIG documentation to support this action.

As a result of these corrective actions, the OCFO maintains the training recommendations from both the FY 2018 IPERA review audit and this year’s audit, have been satisfied.

Finally, the OCFO would like to note clarification needed on the following OIG statement within this Draft Report, “[W]e identified and confirmed with the Office of Grants and Debarment an additional \$571,469.19 in improper payments that occurred due to insufficient or lack of supporting documentation.” The OCFO performs a robust primary review of all payments selected in the statistical IPERA sample. In addition, the OCFO performed a secondary quality assurance review of the work performed on the primary sample. The OIG chose not to review the QA files provided for the review period being audited. We will work with the OIG in future IPERA audits to ensure they review both the primary and secondary review files. For the OCFO IPERA reviews, the Grants Management Officers are the only individuals who hold the responsibility of making the determination of whether a payment is improper. As a result, unless or until the GMOs have rendered improper payment determinations, the costs identified by the OIG during this audit process should be considered questioned costs rather than confirmed improper payments.

AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	Assigned to:	High-Level Corrective Action(s)	Estimated Completion Date
1	Revisit the previous recommendation in EPA OIG Report No. 19-P-0163, <i>EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed</i> , to implement internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments and verify all corrective actions are completed.	OCFO	The agency has implemented internal controls by updating the IPERA Standard Operating Procedures to reflect an annual training requirement for all IPERA grant reviewers, to include training on the SOP checklist and completion of the Office of Mission Support Grants Specialist Module, prior to beginning their reviews. Completion of this training must be certified in writing to the IPERA Grant Review Lead	Completed 1/30/2020

			prior to receiving sample recipient folders for review.	
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CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761.

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OIG's Assessment of the Agency's Response to the Draft Report

The EPA agreed with our recommendation to revisit the previous recommendation in *OIG Report No. 19-P-0163*—which stated that the OCFO should implement internal controls for training reviewers and annually verifying that reviewers are knowledgeable and proficient in the identification and reporting of improper payments—and to verify that all corrective actions for that recommendation were completed. The OCFO stated that it updated the IP SOP to include an annual training requirement for all IPERA grant reviewers that includes training on the IP SOP checklist and the Office of Mission Support Grants Specialist Module. Completion of this training must be certified in writing to the IPERA grant review lead prior to receiving sample recipient folders for review. The OIG received the updated IP SOP on April 27, 2020, but we have not evaluated the updated IP SOP, nor will we be able to determine whether reviewers are knowledgeable and proficient in the identification and reporting of improper payments until we conduct our next IPERA audit. Therefore, we consider the recommendation unresolved.

The EPA disagreed with our conclusion that the OIG identified an additional \$571,469.19 in improper payments that occurred due to insufficient or lack of supporting documentation. Specifically, the EPA stated that:

For the OCFO IPERA reviews, the [grants management officers] are the only individuals who hold the responsibility of making the determination of whether a payment is improper. As a result, unless or until the [grants management officers] have rendered improper payment determinations, the costs identified by the OIG during this audit process should be considered questioned costs rather than confirmed improper payments.

The OIG disagrees with the Agency's explanation. As discussed in this report, grant reviewers could not provide sufficient documentation to support that amounts paid met cost principles, as required. Additionally, although the Agency argues that the costs identified by the OIG should be deemed questioned costs, the IP SOP directs that questioned costs not resolved by June 30 are to be reported as improper payments. The Office of Grants and Debarment is responsible for all grant management processes, including training grant management officers regarding grant administrative policies, procedures, and cost principals (i.e., allowable and unallowable costs). After the OIG identified the additional improper payments, we sought the perspective of the Office of Grants and Debarment, which confirmed the improper payments.

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