



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs

Report No. 20-P-0170

May 18, 2020

**No risk
assessment**
at program level



\$5.7 billion
in taxpayer
dollars at risk



2018

Report Contributors:

Michael Davis
Ryan Dzakovic
Marcia Hirt-Reigeluth
Randy Holthaus

Abbreviations

EPA	U.S. Environmental Protection Agency
ERM	Enterprise Risk Management
FY	Fiscal Year
GAO	U.S. Government Accountability Office
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover Image: The EPA had not prepared program-level risk assessments for the 20 highest dollar value programs in fiscal year 2018, resulting in \$5.7 billion taxpayer dollars at risk. (EPA OIG image)

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

EPA Inspector General Hotline
1200 Pennsylvania Avenue, NW (2431T)
Washington, D.C. 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, D.C. 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 Office of Inspector General conducted an audit to determine whether the U.S. Environmental Protection Agency complied with the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) and the Office of Management and Budget's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, in preparing program-level risk assessments when designing and implementing EPA programs.

The Green Book states in its second standard, Risk Assessment, that management needs to prepare a risk assessment for its entities and its programs, which should provide the basis for developing appropriate responses to address the identified risks. OMB Circular A-123 states that identifying risk requires (1) that an initial risk assessment be prepared for a new component, activity, or project within an agency, as well as (2) a continuous identification of new or emerging risks, or changes in existing risks.

This report addresses the following:

- *Operating efficiently and effectively.*

Address inquiries to our public affairs office at (202) 566-2391 or [OIG WEBCOMMENTS@epa.gov](mailto:OIG_WEBCOMMENTS@epa.gov).

List of [OIG reports](#).

EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs

What We Found

The EPA needs to conduct risk assessments when designing and implementing programs, in accordance with the GAO Green Book and OMB Circular A-123. Although the Agency has been proactive in evaluating risks at the strategic level, individual program offices did not conduct program-level risk assessments. Both the GAO and the OMB confirmed that program-level risk assessments are required. We also found that program offices were unable to distinguish between the GAO's requirement to assess risk at the program level and the OMB's requirement to address risk strategically using the Enterprise Risk Management process. We found that the Agency's Enterprise Risk Management guidance did not address the Green Book requirements for performing program-level risk assessments, which we discussed with EPA management. The EPA agreed, during our audit, to revise its guidance to address the need to conduct program-level risk assessments for new and existing programs. The EPA issued revised guidance in February 2020.

By not conducting risk assessments for 20 programs that collectively cost over \$5.7 billion in fiscal year 2018, the EPA cannot be certain it has the proper procedures in place to address internal and external risks to these programs.

We found that personnel who directly execute EPA programs need additional training in both GAO Green Book requirements and the Enterprise Risk Management process. Also, without a formal and comprehensive risk assessment performed at the program level, the internal controls may be inadequate or nonexistent, resulting in an ineffective and inefficient program.

Recommendation and Planned Agency Corrective Actions

We recommend that the chief financial officer require management and staff who directly execute EPA programs to be trained on the GAO Green Book, with emphasis on program-level risk assessments. The EPA agreed with our recommendation and provided acceptable planned corrective actions and estimated completion dates. The recommendation is resolved with corrective actions pending.



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

THE INSPECTOR GENERAL

May 18, 2020

MEMORANDUM

SUBJECT: EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs
Report No. 20-P-0170

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-FY19-0034. 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 has the primary responsibility for the issues discussed in this report.

In accordance with EPA Manual 2750, your office provided acceptable corrective actions and estimated milestone dates in response to OIG recommendations. All 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. 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.

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 Office.....	3
	Scope and Methodology	4
	Prior Audit Reports.....	4
2	EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs	5
	Federal Requirements and Guidance on Risk Assessment.....	5
	GAO and OMB Confirm Need for Program-Level Risk Assessments	6
	EPA Did Not Conduct Required Program-Level Risk Assessments	6
	EPA Revised ERM Guidance During Our Audit to Address Identified Deficiency.....	8
	Training Is Needed in Green Book Program-Level Risk Assessment Requirements	8
	Conclusions	9
	Recommendation.....	9
	Agency Response and OIG Assessment	9
	Status of Recommendation and Potential Monetary Benefits	10

Appendices

A	Details on Scope and Methodology	11
B	Agency Response to Draft Report	13
C	Distribution	15

Chapter 1

Introduction

Purpose

The Office of Inspector General conducted an audit to determine whether the U.S. Environmental Protection Agency complied with the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (commonly referred to as the Green Book) and the Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, in preparing program-level risk assessments when establishing and maintaining EPA programs.

Background

Identifying and assessing risk is a necessary step prior to developing appropriate internal control procedures. Without conducting a risk assessment, internal control procedures can be inefficient, ineffective, or unnecessary and can fail to address significant risks. This audit focused on Risk Assessment, the second standard of internal control as defined in the GAO Green Book. This standard, established in November 1999, should be the second step that federal program managers perform while establishing and maintaining a program or entity.

Our audit did not focus on the Enterprise Risk Management process, which is an OMB-directed initiative that federal agencies were mandated to use starting in fiscal year 2017. Unlike the risk assessment process defined in the GAO Green Book, which focuses at the program level, the ERM process considers major risks that can cut across an agency and may hinder the organization from achieving its strategic objectives. The EPA uses the risk assessment tool and program review strategies in the ERM process to evaluate the risks to strategic objectives, which is different from complying with or preparing a program-level risk assessment as defined in the Green Book. For example, preparing program-level risk assessments for EPA programs such as the Great Lakes Restoration program or the EPA's program to protect the environment from pesticide risk is different than the ERM process for identifying risk at the strategic level.

A program review strategy analyzes and assesses, by strategic objective, the effectiveness of internal controls; detects weaknesses and deficiencies; and provides a sound, documented basis for the annual Federal Managers' Financial Integrity Act assurance letters, which program offices submit to the EPA administrator.

GAO's Standards for Internal Control in the Federal Government

The Federal Managers' Financial Integrity Act of 1982 required the OMB, in consultation with the GAO's comptroller general, to issue standards for internal control in government. In 1983, the GAO issued the original Green Book. In November 1999, the GAO updated the Green Book and established five internal control standards that federal agencies must follow when setting up new programs (Table 1).

Table 1: Five standards for internal control for the federal government

Control environment	This is the foundation for an internal control system. Management should establish a control environment that affirms a commitment to integrity and ethical values. The control environment provides the discipline and structure to help an agency achieve its objectives.
Risk assessment	Managers assess risks facing the entity as it seeks to execute its programs and achieve its objectives. This assessment is the foundation for developing appropriate risk responses.
Control activities	After assessing the risks, the control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks.
Information and communication	Management should use, and internally and externally communicate, quality information to achieve the entity's objectives.
Monitoring	Management should establish and implement activities to monitor agency performance, evaluate results, and promptly resolve identified deficiencies.

Source: OIG-created table based on the Green Book.

The five standards represent the highest level of internal control standards in the federal government and must be effectively designed, implemented, and operated in an integrated manner to be effective. These standards are the foundation for establishing and maintaining internal control and identifying and addressing significant management challenges and areas at greatest risk for fraud, waste, abuse, and mismanagement. The revised Green Book, issued in September 2014 and effective in FY 2016, added 17 principles to the five internal control standards. The four principles that management officials should use when designing and implementing the risk assessment control standard are:

- Defining objectives clearly to identify risks and define risk tolerances.
- Identifying, analyzing, and responding to risks related to achieving the defined objectives.
- Considering the potential for fraud when identifying, analyzing, and responding to risks.
- Identifying, analyzing, and responding to significant changes that could impact the internal control system.

OMB Circular A-123

OMB Circular A-123 provides guidance for management to establish internal controls for identified risks. It states that the standards outlined in the Green Book “provide the internal control framework and criteria Federal managers must use in designing, implementing, and operating an effective system of internal control.” It also provides guidance for addressing risk at the strategic level and defines management’s responsibilities for the ERM process.

Enterprise Risk Management

OMB Circular A-123 defines the ERM process as:

An effective Agency-wide approach to addressing the full spectrum of the organization’s external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos.
[emphasis added]

According to EPA officials, the Agency began implementing the ERM process in 2016. EPA personnel told us that this process helped identify strategic risks to achieving the objectives in the *FY 2018-2022 U.S. EPA Strategic Plan*, which is the basis for identifying the EPA’s enterprise risks. According to the EPA, some of these strategic risks may reflect program-level risks.

The *FY 2017 Guidance for Enterprise Risk-Based Decision Making at EPA: Integrating Strategic Reviews and Management Integrity Internal Controls* required programs and offices to assess controls at the strategic goal and objective level based on the *FY 2018–2022 Strategic Plan* and to document the effectiveness of internal controls and compliance with the GAO’s five standards and 17 principles. The FY 2018 guidance noted that the standards and principles help determine whether internal controls are designed, implemented, and operating effectively. Using the risk assessment tool will help offices identify risks that could prevent them from achieving the strategic objectives listed in the Strategic Plan, it adds.

The *FY 2019 Guidance for Strategic Reviews and Internal Controls* clarified the internal control responsibilities of program and regional managers and required offices to maintain documentation to support management’s decision on the effectiveness of controls.

Responsible Office

The Office of the Chief Financial Officer is primarily responsible for the issues discussed in this report. The OCFO leads the Agency’s ERM and strategic planning and performance management efforts.

Scope and Methodology

We conducted this performance audit from December 2018 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Initially, we attempted to obtain risk assessments from EPA headquarters for the top 20 Agency programs by dollar value in FY 2018. When the Agency could not provide this information, we asked for risk assessments for the five newest congressionally authorized programs and projects, which were created from FY 2016 through FY 2018.

During this audit, we contacted the GAO's Strategic Issues Mission Team and the OMB's assistant general counsel to obtain their input on the internal control risk assessment standard and the ERM risk assessment process. Appendix A contains more details on our audit activities.

Prior Audit Reports

In the past six years, the EPA OIG has issued reports recommending that the EPA prepare risk assessments for various programs:

- Report No. [13-P-0271](#), *Improved Internal Controls Needed in the Gulf of Mexico Program Office*, dated May 30, 2013. The OIG found that the program had not assessed its strategic objectives and performance measures, as required by governmentwide internal control standards. As a result of our audit, the EPA completed its Gulf of Mexico Program Office risk assessment for its FY 2014 performance measures and a program review strategy.
- Report No. [19-P-0045](#), *EPA's Water Infrastructure Finance and Innovation Act Program Needs Additional Internal Controls*, dated December 14, 2018. The OIG found that the EPA did not prepare a comprehensive program risk assessment prior to establishing the program. Further, the EPA did not develop program performance measures to fully identify and capture financial data and public health benefits to affected communities. Lastly, the Agency needed to strengthen its SharePoint access controls for the Water Infrastructure Finance and Innovation Act program. During the audit, the OIG discussed the importance of having a comprehensive program risk assessment with the program managers. The Agency agreed and provided its risk assessment and control matrix to the OIG on December 20, 2018.

Chapter 2

EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs

The EPA needs to conduct risk assessments when designing and implementing programs, in accordance with the GAO Green Book and OMB Circular A-123. Although the Agency has been proactive in evaluating risks at the strategic level, individual program offices within the Agency did not conduct or provide program-level risk assessments. In addition, we found that program office personnel were unable to distinguish between the GAO Green Book requirement to assess risk at the program level and the requirements of the ERM process as stated in the OMB Circular. The EPA's guidance did not clearly differentiate between program-level risk assessments and the agencywide risk assessment of strategic objectives. The EPA considers program risk broadly across the Agency through the ERM process, despite the GAO's emphasis that risks must also be identified at the individual program level. Without a risk assessment at the program level, internal controls to address existing risks may be inadequate or nonexistent, resulting in an ineffective and inefficient program.

Federal Requirements and Guidance on Risk Assessment

The GAO Green Book's second standard, Risk Assessment, requires management to assess the risks facing the entity from both external and internal sources as it seeks to achieve its objectives. This assessment provides the basis from which management should develop appropriate risk responses, such as standard operating procedures to mitigate such risks.

OMB Circular A-123 defines management's responsibilities for the ERM process and internal control. The circular provides Green Book implementation guidance for managers "on improving the accountability and effectiveness of Federal programs and operations by identifying and managing risks." It establishes an assessment process based on the Green Book that can enable management to properly assess and improve internal controls over operations, reporting, and compliance. Federal managers and leaders are responsible for integrating the ERM process and internal control functions into the governance structure of a program or entity. When establishing a new program, it is management's responsibility to identify objectives and goals for the program and to implement practices that identify, assess, respond, and report risks.

OMB Circular A-123, Section II, B2, *Identification of Risk*, states that a critical step in building the agency's risk profile is identifying risks. The first phase in that process is initial risk identification, which is for agencies that have not identified risks in a structured way or for new components, programs, or activities

that have not yet identified risks. The second phase involves identifying changes in existing risks and new and emerging risks on a continuous basis.

Since FY 2017, the EPA has annually issued comprehensive guidance that integrated strategic reviews and management integrity while incorporating risk considerations into Agency planning and budgeting decisions. Technical training on the Green Book standards and principles was provided in March 2018, as stated in the guidance issued in FY 2018. Managers and strategic planners were encouraged to attend.

The guidance in FY 2019 noted that face-to-face training, by strategic objective, would be provided for planners in the national program offices and for management integrity advisors. A goal of these sessions, the guidance stated, was to strengthen the connection between risks and internal controls and to ensure that the EPA has valid internal controls for strategic risks. However, the training discussed and provided to senior management in both the FY 2018 and FY 2019 guidance was not given to the program office personnel who directly execute EPA programs.

GAO and OMB Confirm Need for Program-Level Risk Assessments

GAO personnel stated that even with the ERM process, agencies should still conduct program-level risk assessments. The GAO views the ERM process as a tool to determine and evaluate agencywide strategic risks. The ERM process addresses risks to the entire agency, but the GAO emphasizes that unique risks to individual programs need to be identified and addressed for each specific program as well.

The OMB stated that assessing risk for a program's internal control needs is different than broadly assessing risk under the ERM process, which looks agencywide. The OMB explained that the risk assessment process in the Green Book could be leveraged to inform the ERM process, although program-level risk assessment addresses different risks.

EPA Did Not Conduct Required Program-Level Risk Assessments

The EPA needs to conduct program-level risk assessments when designing and implementing programs, in accordance with the GAO Green Book and OMB Circular A-123, Section II. The EPA program managers did not prepare program-level risk assessments, which the GAO and the OMB criteria require, when designing and implementing their respective programs. Further, none of the EPA's previously issued ERM guidance explained that program managers should follow Green Book guidance when preparing program-level risk assessments.

We requested copies of program-level risk assessments for the top 20 programs by dollar value in FY 2018 (Appendix A), which totaled \$5.7 billion or approximately 71 percent of the EPA's \$8.1 billion budget (Figure 1). However, the EPA stated that it did not have any program-level risk assessments for these programs.

Subsequently, we obtained a list of the five newest congressionally authorized programs from the Agency to determine whether the EPA had complied with the GAO Green Book requirement to conduct risk assessments when those programs were established. The EPA's five newest programs, by year initially funded, were:

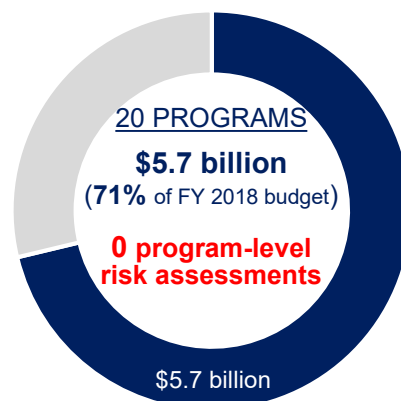
1. Water Infrastructure Finance and Innovation Act (FY 2016).
2. Gold King Mine Monitoring (FY 2017).
3. Lead Testing in Schools (FY 2018).
4. Reducing Lead in Drinking Water (FY 2018).
5. Safe Water for Small and Disadvantaged Communities (FY 2018).

The total funding was \$15.3 million in FY 2018 for the first two programs listed above and \$117 million in FY 2019 for all five programs listed above.

In May 2019, we requested copies of the program-level risk assessments for four of the five programs. We obtained a program-level risk assessment for the Water Infrastructure Finance and Innovation Act program in December 2018 from a prior audit we conducted. In response to our request, we met with Office of Water personnel and concluded that there were no program-level risk assessments prepared for those four programs. However, they did provide us with a program review strategy, dated June 2018, related to Water Infrastructure Finance and Innovation Act activities.

Program review strategies focus on risk at the agencywide strategic level, which is different from the Green Book's requirements to focus on risk at the individual program level. While the program review strategy document identified only two risks for three control objectives, the risk assessment for the Water Infrastructure Finance and Innovation Act program was much more specific, identifying 58 specific risks to the program, the parties responsible for taking actions to address risks, and the time frames for doing so. The level of detail included in the program review strategy document compared to the level of detail in the program-level risk assessment illustrates the differences between the strategic-level focus of the ERM process and the program-level focus of the Green Book.

Figure 1: 20 highest dollar value programs in FY 2018



Source: EPA OIG graphic.

In June 2019, personnel in the Office of Water stated that they were preparing a program-level risk assessment for the Gold King Mine Monitoring program and provided it to the OIG in January 2020. The Office of Water subsequently provided program-level risk assessments for the remaining three programs to the OIG also in January 2020. We reviewed all the risk assessments and concluded that they were consistent with Green Book principles.

EPA Revised ERM Guidance During Our Audit to Address Identified Deficiency

None of the EPA's previously issued ERM guidance explained that the GAO Green Book should be used to prepare program-level risk assessments when designing and implementing programs. During our interviews with EPA program managers, we were told that they thought the ERM process satisfied GAO and OMB requirements to implement practices that identify, assess, respond, and report on risks within a program. The EPA guidance did not explain the difference between an ERM risk assessment of strategic objectives and the GAO Green Book requirements for individual program-level risk assessments. Agency guidance also did not emphasize the importance of preparing program-level risk assessments as an integral part of program design.

In August 2019, we met with personnel from the OCFO, including the director of Planning, Analysis, and Accountability, to discuss this deficiency with the Agency's ERM guidance that we identified. We explained that the guidance did not have instructions for when and how the Agency should conduct program-level risk assessments. In response, the director stated that the Agency's FY 2020 ERM guidance, which the OCFO planned to issue in December 2019, would address the requirement that program offices should prepare program-level risk assessments for new programs. The director stated that an office should prepare a risk assessment for a new program if it received funding for the program.

On February 19, 2020, the OCFO published its *FY 2020 Guidance for Strategic Reviews and Internal Controls*. In it, the Agency addressed the *GAO Standards for Internal Control* as it pertains to conducting program-level risk assessments for new and existing programs by stating, "As appropriate, program and regional offices should conduct risk assessments for current and/or newly established programs or projects to determine whether current controls are effective in achieving the stated goals and objectives."

Training Is Needed in Green Book Program-Level Risk Assessment Requirements

The EPA considers the ERM process as its principal tool to satisfy OMB Circular A-123 requirements to identify and mitigate risk at the agencywide enterprise level. The EPA considers its internal control process the principal approach to satisfy the GAO Green Book requirements to mitigate risk at the

lowest program level. We found that program office personnel could not sufficiently distinguish between the responsibilities of the ERM process and the GAO Green Book requirement to assess risk at the program level. As noted earlier, the training provided on these topics was intended for strategic planners, not for those who directly execute EPA programs. Personnel from the Office of Air and Radiation told us that they would be interested in such training.

Conclusions

Without information from program-level risk assessments, the EPA may not be able to identify significant risks to individual programs. As a result, the Agency might not establish the necessary internal control procedures to address risks, potentially resulting in an ineffective and inefficient program.

Recommendation

We recommend that the chief financial officer:

1. Require management and staff who directly execute EPA programs to take mandatory annual training on the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) with emphasis on program-level risk assessments.

Agency Response and OIG Assessment

The EPA agreed with our recommendation and provided acceptable planned corrective actions and estimated completion dates. The recommendation is resolved with corrective actions pending.

The OCFO stated that it will revise and update the senior managers' and management integrity advisors' online training courses to include relevant information on the GAO Green Book by December 30, 2020. The OCFO also stated that it will require assistant administrators and regional administrators to certify in their annual assurance letters by August 30, 2021, that all appropriate staff have taken the training.

In our April 8, 2020 meeting with OCFO personnel, they said that our draft report recommendation was confusing and suggested a revision for clarity. In its official response dated April 14, 2020, the OCFO commented that the EPA currently does not have guidance titled *Guidance for Enterprise Risk-based Decision Making at EPA*. Instead, the OCFO stated that the EPA issues annual guidance titled *Strategic Reviews and Internal Controls* and provides stakeholders with an overview of the guidance. Therefore, the OCFO suggested that, for clarity, the OIG revise the recommendation in the final report to refer solely to the training needed relating to the Green Book. The OIG agreed with the OCFO's suggestion, and we revised the recommendation accordingly. The complete Agency response to the draft report is in Appendix B.

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	9	Require management and staff who directly execute EPA programs to take mandatory annual training on the U.S. Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> (Green Book) with emphasis on program-level risk assessments.	R	Chief Financial Officer	8/30/21	

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Details on Scope and Methodology

The policies and procedures we reviewed include:

- GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.
- OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016.
- EPA, *FY 2017 Guidance for Enterprise Risk-Based Decision Making at EPA: Integrating Strategic Reviews and Management Integrity Internal Controls*, March 17, 2017.
- EPA, *FY 2018 Guidance for Enterprise Risk-Based Decision Making at EPA: Strategic Reviews and Management Integrity Internal Controls*, March 9, 2018.
- EPA, *FY 2019 Guidance for Strategic Reviews and Internal Controls*, March 13, 2019.

We performed the following actions to determine whether the EPA prepared risk assessments for programs in accordance with the GAO's second internal control standard:

- Reviewed and summarized prior OIG and GAO audits and evaluations that were relevant to this audit.
- Reviewed EPA regional and program office Annual Assurance Letters issued from FY 2016 through FY 2018.
- Assessed management and internal controls as they related to preventing and detecting fraud, waste, and abuse.
- Interviewed staff from the Office of Water, the Office of Land and Emergency Management, and the Office of Air and Radiation to gather information that would assist us in understanding, documenting, and analyzing the risk assessments developed to manage the respective EPA programs and safeguard resources.
- Reviewed a sample of EPA program review strategies for 21 Office of Water programs.

We identified the top 20 programs by dollar value totaling \$5.7 billion, which equaled approximately 71 percent of the \$8.1 billion total of Annualized Continuing Resolution Funds for FY 2018. We requested that the EPA provide us with the program-level risk assessments for these programs:

1. Brownfields Projects.
2. Categorical Grant: Nonpoint Source (Sec. 319).
3. Categorical Grant: Pollution Control (Sec. 106).
4. Categorical Grant: Public Water System Supervision.
5. Categorical Grant: State and Local Air Quality Management.
6. Civil Enforcement.
7. Compliance Monitoring.
8. Drinking Water Programs.
9. Facilities Infrastructure and Operations.
10. Federal Support for Air Quality Management.
11. Great Lakes Restoration.
12. Infrastructure Assistance: Clean Water State Revolving Fund.
13. Infrastructure Assistance: Drinking Water State Revolving Fund.
14. Information Technology/Data Management.
15. Research: Safe and Sustainable Water Resources.
16. Research: Sustainable and Healthy Communities.
17. Superfund: Remedial.
18. Superfund: Emergency Response and Removal.
19. Superfund: Enforcement.
20. Surface Water Protection.

We identified the five newest congressionally authorized programs, which totaled \$15.3 million for two programs in FY 2018 and \$117 million for all five programs in FY 2019. We reviewed the risk assessment, which was provided to us in December 2018, for the Water Infrastructure Finance and Innovation Act program, one of the five newest programs. We requested program-level risk assessments for these four programs and reviewed them in January 2020:

1. Gold King Mine Monitoring.
2. Lead Testing in Schools.
3. Reducing Lead in Drinking Water.
4. Safe Water for Small and Disadvantaged Communities.

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

April 14, 2020

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Audit Report, Project No. OA&E-FY19-0034, “*EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs*,” dated March 18, 2020

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

DAVID
BLOOM

Digitally signed by DAVID
BLOOM
Date: 2020.04.14 09:20:53
-04'00'

TO: Michael D. Davis, Director, Efficiency Directorate
Office of Audit and Evaluation

Thank you for the opportunity to respond to the issues and recommendations in 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 each of the report recommendations. We have provided high-level intended corrective actions and estimated completion dates.

AGENCY’S OVERALL POSITION

The Office of the Chief Financial Officer agrees with the intent of the recommendation in the report and has established a corrective action to address the Office of Inspector General’s concerns.

AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

The OCFO requests the OIG to revise the recommendation to only include a reference to training on the Government Accountability Office’s Standards for Internal Control in the Federal Government (Green Book). Currently, there is no guidance entitled, *Guidance for Enterprise Risk-based Decision Making at EPA*. The EPA issues annual guidance on *Strategic Reviews and Internal Controls* and, upon issuance, engages with stakeholders to provides an overview of the guidance. As stated in the table below, the agency plans to update the on-line management

integrity courses and require certification of completion from Assistant Administrators and Regional Administrators in their annual assurance letter.

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
1	Require management and staff who directly execute EPA programs to take mandatory annual training on the U.S. Government Accountability Office's Standards for Internal Control in the Federal Government (Green Book) and the current <i>Guidance for Enterprise Risk-based Decision Making at EPA</i> , with emphasis on the differences between the Enterprise Risk Management and the Green Book's requirements for program-level risk assessments.	<p>1.1 The OCFO will revise and update the senior managers and management integrity advisors on-line training courses to include relevant information on the GAO's <i>Standards for Internal Control in the Federal Government</i> (Green Book).</p> <p>1.2 The OCFO will require AAs/RAs to certify completion of the training for all appropriate staff in their annual assurance letters.</p>	<p>December 30, 2020</p> <p>August 30, 2021</p>

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.

cc: Carol Terris
 C. Paige Hanson
 Charlie Dankert
 Jeanne Conklin
 Istanbul Yusuf
 Aileen Atcherson
 Randy Holthaus
 Annette Morant
 Andrew LeBlanc

Distribution

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