



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

*Compliance with the law  
Operating efficiently and effectively*

## **EPA Needs to Substantially Improve Oversight of Its Military Leave Processes to Prevent Improper Payments**

Report No. 21-P-0042

December 28, 2020



**Report Contributors:**

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**Abbreviations**

EPA	U.S. Environmental Protection Agency
IBC	U.S. Department of Interior’s Interior Business Center
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMS	Office of Mission Support
OPM	U.S. Office of Personnel Management
U.S.C.	United States Code

**Cover Image:** The EPA must establish key internal control elements to effectively implement military leave laws, guidance, and related policies and procedures.  
(EPA OIG image)

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# At a Glance

## Why We Did This Audit

We conducted this audit to determine whether the U.S. Environmental Protection Agency is following federal laws and regulations and has established controls related to military leave. A federal civilian employee who is a member of a military reserve force—that is, a *reservist*—is entitled to military leave for certain types of duty in the National Guard or Armed Forces.

If an EPA reservist takes unpaid military leave and the reservist's military pay is less than what the reservist would have earned in civilian pay, the EPA must pay the reservist the difference—that is, the *reservist differential*. EPA reservists who take paid military leave must, in certain circumstances, reimburse the EPA for the military pay received, minus travel, transportation, and per diem—known as a *military offset*.

### This audit addresses the following:

- *Compliance with the law.*
- *Operating efficiently and effectively.*

### This audit addresses a top EPA management challenge:

- *Complying with key internal control requirements (policies and procedures).*

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List of [OIG reports](#).

## EPA Needs to Substantially Improve Oversight of Its Military Leave Processes to Prevent Improper Payments

### What We Found

The EPA has not fully complied with federal laws related to military leave, reservist differential, and military offset. This occurred because Agency management did not establish effective internal controls to implement these laws. The EPA instead relied on reservists, their supervisors, and the Agency's federal payroll provider to comply with federal requirements.

**The EPA paid 124 reservists about \$1.4 million in military leave pay from January 2017 through June 2019. We identified potential improper payments of \$129,000 related to 104 of the 1,628 payroll transactions that we audited.**

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, known as the "Green Book," and the Office of Management and Budget's Circular No. A-123 state that management is responsible for complying with applicable federal laws and regulations, as well as for designing, implementing, and monitoring internal controls to achieve its objectives. When effective and systematic internal controls are in place, compliance with laws and regulations becomes more likely.

EPA management's lack of internal controls to effectively implement federal laws resulted in potential overpayments or underpayments to EPA reservists. Based on the transactions we reviewed, the Agency had a 75 percent error rate for 36 of 48 reservists tested for compliance with military leave requirements. These errors resulted in about \$129,000 in potential improper payments.

### Recommendations and Planned Agency Corrective Actions

We recommend that the assistant administrator for Mission Support and the chief financial officer develop and implement policies and procedures on military leave and pay requirements; provide resources to EPA staff related to military leave, such as guidance and training; implement internal controls to monitor Agency compliance with applicable military leave laws, guidance, and policies; and address military offset because of the EPA and reservist differential due to reservists. We also recommend that the chief financial officer report all improper payments related to military leave in the annual *Agency Financial Report*. The Agency agreed with the recommendations and provided acceptable planned corrective actions and estimated completion dates. We consider the recommendations resolved with corrective actions pending.



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

THE INSPECTOR GENERAL

December 28, 2020

**MEMORANDUM**

**SUBJECT:** EPA Needs to Substantially Improve Oversight of Its Military Leave Processes to Prevent Improper Payments  
Report No. 21-P-0042

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

A handwritten signature in blue ink that reads "Sean W O'Donnell".

**TO:** Donna Vizian, Principal Deputy Assistant Administrator  
Office of Mission Support

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 is [OA&E-FY19-0286](#). This report contains findings that describe the problems the OIG has identified and corrective actions that 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 Mission Support and the Office of the Chief Financial Officer are responsible for the subjects covered in this report.

In accordance with EPA Manual 2750, the Agency provided acceptable planned 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](http://www.epa.gov/oig).

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# Chapter 1

## Introduction

### Purpose

The Office of Inspector General of the U.S. Environmental Protection Agency conducted this audit to determine whether the EPA is following federal laws and regulations and has established controls, related to its employees on military leave.

#### Top Management Challenge

This audit addresses the following top management challenge for the Agency, as identified in OIG Report No. [20-N-0231](#), *EPA's FYs 2020–2021 Top Management Challenges*, issued July 21, 2020:

- *Complying with key internal control requirements (policies and procedures).*

### Background

As set forth in 5 U.S.C. § 6323, a federal employee who is also a member of a military reserve force—referred to as a *reservist*—is entitled to paid military leave for certain types of active or inactive duty in the National Guard or Armed Forces. The amount of time and pay for military leave that a reservist receives is dictated by federal law. From January 2017 through June 2019, the EPA paid approximately \$1.4 million in military leave to 124 Agency employees who were reservists.

Depending on the specific legal provisions under which an EPA reservist on military leave received military orders—as further explained in Table 1—the reservist's EPA pay can either remain the same or be reduced by the amount of pay the reservist receives from the National Guard or Armed Forces. If the reservist takes leave under 5 U.S.C. § 6323(a), the reservist's EPA pay remains the same, and the reservist may retain both the military pay and the Agency pay. In contrast, military leave taken under 5 U.S.C. § 6323(b) and (c) is subject to the provisions of 5 U.S.C. § 5519. Under this law, an EPA reservist who receives both military pay and Agency pay for the same day(s) of service must reimburse the EPA for the military pay received, minus travel, transportation, and per diem allowances. This reimbursement is known as a *military offset*.

An EPA reservist who takes unpaid military leave under 5 U.S.C. § 5538 for active duty tours is entitled to receive a *reservist differential* from the Agency, so that the reservist does not incur a reduction in pay when called to active duty. The law protects the reservist's pay by requiring the EPA to make up any difference between what the reservist was projected to earn from the Agency and what the reservist earned from the military while on active duty.

The U.S. Office of Personnel Management is responsible for prescribing regulations necessary to carry out the reservist differential authority. The OPM's *Policy Guidance: Regarding Reservist Differential under 5 U.S.C. 5538*,

originally issued on December 8, 2009, addresses the reservist differential provisions, including eligibility criteria, definitions, and processes for calculating the amount of pay differential. In conjunction with the policy, the OPM issued procedural guidance, *Reservist Differential Agency Implementation Guidance*, on March 15, 2009, that provides guidance for agencies to establish processes and procedures for implementing the reservist differential authority, including procedures for:

- Identifying and notifying affected reservists.
- Reviewing reservists' military orders.
- Projecting civilian basic pay during the qualifying period of active duty service.
- Calculating and paying the reservist differential.

The OPM's policy guidance has been intermittently amended and reissued since it was originally issued in 2009. As of July 2020, the most recent update was issued on June 23, 2015.

### ***EPA Military Leave and Pay Guidance***

The EPA's *Leave Manual*, dated September 1995, and *Leave Handbook*, undated, detail the Agency's policy and guidance for leave. The *Leave Manual* provides the Agency's policy for the administration of leave benefits in accordance with legal and regulatory requirements. The *Leave Handbook* is the Agency's guidance based on applicable federal law, federal regulation, and the *Leave Manual*, and it provides general information about leave for EPA employees and supervisors. While both documents include basic information related to military leave based on 5 U.S.C. § 6323, a previous OIG audit found that both are significantly outdated. See the "Prior Reports" section below for more details. Neither the *Leave Handbook* nor the *Leave Manual* contain specific policies and procedures addressing how the Agency should comply with the military offset requirements of 5 U.S.C. § 5519.

In accordance with 5 U.S.C. § 5538, agencies, in consultation with the OPM, shall adopt procedures to protect reservists' rights related to the reservist differential under this statute. The EPA did not issue any policies or procedures specific to reservist differential, nor did it update its *Leave Manual* or *Leave Handbook* to provide guidance to its reservists and supervisors.

The Agency's *Pay Administration Manual*, dated October 1991, details the Agency's policy and procedures on pay administration for Agency employees. The Manual includes specific requirements for many pay categories, such as severance, overtime, and holiday pay. The Manual does not include any specifics related to the determination of reservist differential and includes only minimal references to military leave.

## EPA Military Leave Process

There are five categories of military leave identified under federal law. Both the EPA and the Agency’s payroll provider, the U.S. Department of Interior’s Interior Business Center, or IBC,<sup>1</sup> have specific codes related to these categories for time-and-attendance and payroll processing, respectively. Table 1 outlines the EPA’s codes associated with the different military leave types.

**Table 1: Federal military leave and associated time-and-attendance codes**

Military leave provision	EPA time-and-attendance code	Description
5 U.S.C. § 6323(a)	MILLV	Provides up to 15 paid days for active duty, active duty training, and inactive duty training. Leave payments are not subject to military offset requirements.
5 U.S.C. § 6323(b)	MIL22	Provides up to 22 paid days for emergency duty as ordered by the president, the secretary of defense, or a state governor. Leave payments are subject to military offset requirements.
5 U.S.C. § 6323(c)	MILDC	Provides unlimited paid military leave to members of the National Guard of the District of Columbia for certain types of duty ordered or authorized under Title 49 of the District of Columbia Code. Leave payments are subject to military offset requirements.
5 U.S.C. § 6323(d)	MILOS	Provides reservist technicians with up to 44 paid workdays for duties outside the United States under certain conditions. Leave payments are not subject to military offset requirements.
5 U.S.C. § 5538(a)	LVWOP	A temporary nonpaid status and absence from duty that, in most cases, is granted at the employee’s request. Leave payments are subject to reservist differential requirements.

Source: OIG analysis of federal laws and Agency payroll system data. (EPA OIG table)

If EPA reservists are called to inactive or active duty during times when they would normally be working at the Agency, they must request military leave. For military leave under 5 U.S.C. § 6323, reservists must submit their initial military orders to the EPA supervisor. Upon approval, reservists record the military leave in PeoplePlus, the EPA’s time-and-attendance system, using the applicable codes outlined above in Table 1.

If a reservist plans to be on unpaid military leave, the reservist’s supervisor will authorize, and the servicing personnel office will process, a request for military leave without pay. The resulting personnel records are placed in the reservist’s electronic personnel file. In accordance with the IBC’s *Client Interface Guide*, the servicing personnel office should review the reservist’s initial military orders, determine whether the employee is eligible for reservist differential under 5 U.S.C. § 5538, and advise the reservist accordingly. The reservist should provide monthly military leave-and-earnings statements to the servicing personnel

<sup>1</sup> The IBC is a federal shared services provider, meaning that it provides systems and services for both the Department of the Interior and other federal agencies, including the EPA.



office, which will provide them to the IBC. The IBC will then conduct what is referred to in this report as a *payroll audit calculation*. In the context of 5 U.S.C. § 5538, this payroll audit calculation will determine whether the reservist should receive the reservist differential. If so, the IBC will allocate the military pay and related allowances, such as taxes, to the reservist’s civilian biweekly pay period.

When reservists return from military leave, they submit their final military orders to their supervisors and update their timesheets, as needed. Their supervisors reconcile the final orders against the timesheets. If a supervisor determines that a military offset may be required under 5 U.S.C. § 6323(b) or (c) and 5 U.S.C. § 5519, the supervisor directs the reservist to submit the military orders and military leave-and-earnings statements to the IBC. In accordance with the IBC’s *Client Interface Guide*, reservists must send their paperwork to the IBC Payroll Operations Division. The IBC then performs a payroll audit calculation to determine the offset amount between the civilian and military pay and sends the resulting paperwork to the IBC Debt Management Branch. If a military offset is due, a Bill of Collection is issued to the reservist. The reservist can instead choose to send a check to the IBC for the military offset amount in lieu of submitting documentation to the IBC for review.

***Internal Control in the Federal Government***

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*, which is commonly referred to as the “Green Book,” outlines five internal control components that federal agencies must follow (Table 2).<sup>2</sup>

**Table 2: Five components of internal control for federal government**

<b>Control environment</b>	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.
<b>Risk assessment</b>	Managers assess risks facing the agency as it seeks to execute its programs and achieve its objectives. This assessment is the foundation for developing appropriate risk responses.
<b>Control activities</b>	After assessing the risk, the control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks.
<b>Information and communication</b>	Management should use, and internally and externally communicate, quality information to achieve the agency’s objectives.
<b>Monitoring</b>	Management should establish and implement activities to monitor agency performance, evaluate results, and promptly resolve identified deficiencies.

Source: The Green Book. (EPA OIG table)

In June 2016, the Office of Management and Budget issued Memorandum M-16-17, *OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control*. The Circular requires agencies to implement

<sup>2</sup> GAO-14-704G, dated September 2014.

an enterprise risk-management process to ensure that federal managers are effectively managing 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.” The Circular establishes an assessment process based on the Green Book, and it defines management’s responsibilities for the evaluation of the effectiveness of internal controls.

## Responsible Offices

The Office of Mission Support leads the Agency’s core mission support functions to improve efficiency, coordination, and the customer experience for internal customers, stakeholders, and the public. The Office of Human Resources, within the OMS, is responsible for the management of human resources functions, including agencywide policy development.

The Office of the Chief Financial Officer is responsible for formulating and providing time-and-attendance reporting. The OCFO is also responsible for the PeoplePlus system and its associated operational policies, including:

- Enforcing internal control policies and standards.
- Monitoring records to confirm that appropriate individuals are entering, attesting, submitting, verifying, and approving the time worked.
- Providing system administration.
- Coordinating training.

The Department of the Interior’s IBC was selected by the EPA in 2013 to provide the Agency’s human resources and payroll services, including the processing of military leave payments.

## Scope and Methodology

We conducted this performance audit from August 2019 to August 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.

As detailed in Appendix A, we assessed the internal control components and underlying principles—as outlined in the U.S. Government Accountability Office’s Green Book—that were significant to the audit objectives.<sup>3</sup>

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<sup>3</sup> An entity designs, implements, and operates internal controls to achieve its objectives related to operations, reporting, and compliance. The Government Accountability Office sets internal control standards for federal entities in the Green Book.

To determine whether the EPA followed federal laws and regulations and established controls related to its employees on military leave, we:

- Reviewed federal laws and regulations, external guidance, and internal policies and procedures related to military leave, military leave pay, and the reservist differential authority.
- Interviewed key managers to obtain an understanding of their roles and responsibilities related to military leave and reservist differential.
- Identified the universe of military reservists who charged military leave pay codes from January 1, 2017, through June 30, 2019, per data downloaded from the IBC's payroll information system.
- Surveyed reservists and their supervisors to obtain an understanding of federal military leave requirements, as well as the EPA's policies, procedures, and formal training related to military leave.
- Selected a risk-based judgmental sample of military leave transactions, and tested compliance with federal and Agency requirements.

## Prior Report

EPA OIG Report No. [20-P-0063](#), *Outdated EPA Leave Manual and Control Weaknesses Caused Irregularities in the Office of Air and Radiation's Timekeeping Practices*, issued December 19, 2019, found that the EPA's *Leave Manual* and *Leave Handbook* were outdated. The Agency agreed with the OIG's recommendation to update the EPA's leave policy to reflect current laws and regulations but did not provide an acceptable estimated completion date. Once the *Leave Manual* has been updated, there will be no need for the *Leave Handbook*.

# Chapter 2

## EPA’s Military Leave Program Is Not Compliant with Federal Laws

The EPA has not fully complied with federal laws related to military leave, including 5 U.S.C. § 6323(a)–(c) pertaining to military leave without loss of pay, 5 U.S.C. § 5538(a) pertaining to reservist differential, and 5 U.S.C. § 5519 pertaining to military offset. This occurred because Agency management did not establish effective internal controls to implement these laws. The EPA instead relied on reservists, their supervisors, and the IBC to comply with federal requirements associated with military leave. EPA management’s lack of internal controls to effectively implement federal laws resulted in potential overpayments or underpayments to EPA reservists. Of the military leave transactions we reviewed, for 75 percent of the reservists tested, or 36 of 48 reservists, there was at least one compliance error with military leave requirements. These errors resulted in about \$129,000 in potential improper payments.

### Significant Errors Associated with Military Leave Transactions

Our audit testing found significant errors associated with military leave transactions across all military leave categories. Table 3 shows that EPA reservists recorded a total of 1,628 military leave transactions during our audit period, from January 2017 through June 2019. We tested 105 of these transactions, which were made by 48 reservists. Of the military leave transactions we tested, 36 of the 48 reservists, or 75 percent, made at least one transactional error related to military leave requirements.

**Table 3: Military transactions (January 1, 2017–June 30, 2019)**

PeoplePlus leave code	Number of reservists who used leave code	Number of transactions made	Dollar value charged	Transactions tested	Error rate detected
MILLV	121	1,454	\$1,287,252	20	85%
MIL22	18	99	117,837	10	90
MILDC	2	11	11,935	11	27
MILOS	2	7	7,285	7	100
LVWOP	27	57	N/A	57	*TBD
<b>Total</b>		<b>1,628</b>	<b>\$1,424,309</b>	<b>105</b>	<b>**</b>

Source: Military transaction information from the IBC data system. (EPA OIG table)

\* To be determined. An error rate related to LVWOP cannot be determined until extended deployment documentation is reviewed by the OMS for reservist differential eligibility.

\*\* We did not calculate an overall transactional error rate because the methodology for selecting transactions to test in each category varied.

We also identified about \$129,000 in potential improper payments related to 104 transactions under military leave codes MILLV (five transactions) and MIL22 (99 transactions).<sup>4</sup> As shown in Table 3, there were a total of 1,628 transactions across all military leave codes in this time frame. The actual potential improper payment amount related to the use of military leave codes from January 2017 through June 2019 could, therefore, be substantially higher than the approximately \$129,000 we identified within these 104 transactions. The potential improper payments and instances of noncompliance with respect to 5 U.S.C. §§ 6323 and 5519, as well as potential amounts owed to reservists with respect to 5 U.S.C. § 5538, are discussed in the subsections below.

### ***5 U.S.C. § 6323(a): 15 Days for Active Duty and Active/Inactive Duty Training***

Under 5 U.S.C. § 6323(a)(1), reservists are entitled to leave for active duty, active duty training, or inactive duty training. The EPA codes this leave as MILLV in PeoplePlus. The use of this leave does not require a payment offset or reservist differential; the reservist is allowed to keep both the civilian and military pay.

From January 2017 through June 2019, 121 reservists used this pay code, recording 1,454 separate payroll transactions. We analyzed 20 transactions and found that 85 percent of these transactions contained at least one of the following errors:

- Incorrect military pay code was charged.
- Military leave dates charged did not match dates on military orders.
- Final military orders were not submitted.

Also, within these 20 transactions, we found approximately \$11,000 of improper payments related to five transactions. We consider these payments to be improper because the Agency could not substantiate the validity of the reservists' military leave. Specifically, the dates of the military leave charged to the Agency did not match the dates shown on the reservists' military orders.

### ***5 U.S.C. § 6323(b): 22 Days for Emergency Duty***

Under 5 U.S.C. § 6323(b), reservists are entitled to up to 22 days of paid military leave for emergency duty as ordered by the president, the secretary of defense, or a state governor. The EPA codes this leave as MIL22 in PeoplePlus. The use of this military leave is subject to military offset requirements, and reservists are entitled to receive the higher of their military or civilian pay, but not both. So that the IBC can calculate any military offset due from the reservist, the reservist must provide the necessary documentation, including leave-and-earnings statements, to

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<sup>4</sup> Although we tested only ten MIL22 transactions, the error rate was significant enough to question the entire population of 99 MIL22 transactions. See the “5 U.S.C. § 6323(b): 22 Days for Emergency Duty” subsection for details.

the IBC and request that the IBC perform a payroll audit calculation. The IBC will then generate an invoice for overpayment of civilian pay, as applicable, and send it to the reservist.

From January 2017 through June 2019, 18 reservists used this pay code, recording 99 separate payroll transactions under 22 sets of military orders. We judgmentally selected ten payroll transactions to test and found that the IBC did not perform a payroll audit calculation for nine of the ten transactions to determine the military offset due. This represents a 90 percent sampling error rate.

We did not expand our judgmental selection testing because of the high rate of internal control failure—in other words, the lack of payroll audit calculations—within just those ten transactions. We therefore identified the approximately \$118,000 charged to MIL22 during our audit period as possible improper payments. We consider these payments potentially improper because we have no assurance that the EPA identified and recovered military offset payments due under federal law, and it is likely that at least some portion of the approximately \$118,000 paid in military leave under Section 6323(b) is subject to military offset.

#### ***5 U.S.C. § 6323(c): Unlimited Leave for Washington, D.C., Reservists***

Under 5 U.S.C. § 6323(c), reservists who are members of the Washington, D.C., National Guard are entitled to unlimited military leave for each day of a parade or encampment under Title 49 of the District of Columbia Code. The EPA codes this leave as MILDC in PeoplePlus. The use of this military leave is subject to military offset requirements in accordance with 5 U.S.C. § 5519, and the reservist must provide the IBC with the necessary documentation and request that the IBC perform a payroll audit calculation to determine the dollar amount due from the reservist.

From January 2017 through June 2019, two reservists used this pay code. We analyzed all 11 transactions for these two reservists under this pay code. One reservist incorrectly used MILDC instead of MIL15 for three transactions, for a 27 percent error rate. These miscodings were identified, and the reservist subsequently corrected the relevant timecards and charged the appropriate pay code.

The remaining eight transactions were made by the second reservist, who correctly charged leave to MILDC. This reservist should be commended for taking responsibility to repay the offset due to the Agency. It took the reservist many hours over the course of six months of communicating with OMS and OCFO personnel to finally have the payroll audit calculation performed by the IBC to determine the correct military offset amount.

### ***5 U.S.C. § 6323(d): 44 Days for Duties Outside the United States for Reservist Technicians***

Under 5 U.S.C. § 6323(d), reservists who are military technical specialists, or reservist technicians, are entitled to up to 44 paid workdays for duties outside the United States under certain conditions. The EPA codes this leave as MILOS in PeoplePlus.

From January 2017 through June 2019, two reservists used this pay code. We analyzed all seven transactions for these two reservists under this pay code and found that all seven were inaccurately coded, for a 100 percent error rate.

### ***5 U.S.C. § 5538(a): Reservist Differential***

Under 5 U.S.C. § 5538(a) and OPM policy, reservists who are on military leave without pay for extended deployments may be eligible for reservist differential for active duty contingency operations under specific authority. The EPA codes this leave as LVWOP in PeoplePlus.

From January 2017 through June 2019, 27 reservists used the LVWOP pay code. We analyzed all 57 transactions made by these 27 reservists and found that 81 percent of the extended deployment transactions were not audited by the IBC. We do not know whether all of these unaudited extended deployment transactions are errors, because only certain active-duty contingency operations under specific authority are eligible for reservist differential. For example, pursuant to 5 U.S.C. § 5538(b), the employee must be entitled to reemployment rights to be eligible for reservist differential. It is possible that reservists were underpaid by the EPA because the reservist differential was not calculated by the IBC.

The Agency must first examine the associated military documentation—that is, military orders and military leave-and-earnings statements—to determine whether the reservist would be entitled to reservist differential pay. A payroll audit calculation would not be required, however, if the reservist did not meet the conditions to be eligible for reservist differential under 5 U.S.C. § 5538. For example, if the reservist's military pay was equal to or higher than what the Agency pay would have been, the Agency would not owe the reservist any differential. For those transactions that meet the criteria for reservist differential, the Agency needs to provide the necessary documentation, including leave-and-earnings-statements, to request that the IBC perform payroll audit calculations.

## **EPA Lacks Effective Internal Controls Over Use of Military Leave**

The noncompliances discussed in the examples above occurred because the Agency has not established effective internal controls over the use of military leave. Specifically, the Agency has not:

- Updated policies and procedures to reflect current military leave, reservist differential, and military offset requirements or designed and implemented a process that monitors compliance and proper implementation of the leave statutes.
- Provided resources and training to supervisors, timekeepers, and reservists for military leave activity in PeoplePlus or implemented a process to verify that time charges are correct.
- Implemented a process to ensure that appropriate reservist's differential and military offset payroll audit calculations are being requested, when required, and that appropriate military documentation is properly submitted.

The Green Book and Office of Management and Budget Circular No. A-123 state that management is responsible for complying with applicable federal laws and regulations, as well as for designing, implementing, and monitoring internal controls to achieve its objectives. When effective and systematic internal controls are in place, compliance with laws and regulations becomes more likely.

### ***EPA Needs to Update Policies and Procedures and Establish Processes to Monitor Compliance***

As part of the EPA's process to comply with and properly implement federal requirements related to military leave, the Agency's leave policies and procedures should provide reservists and supervisors with clear and current guidance regarding the different types of military leave. Further, the policies should address military leave eligibility requirements, including documentation requirements, contingency operation authority, and post-leave responsibilities once the reservist returns to civilian duty.

The OMS and the OCFO have not established current policies and procedures consistent with all applicable federal requirements for military leave or implemented a process to monitor compliance. As described in Chapter 1, the Agency's 1995 *Leave Manual* is outdated, and it does not fully incorporate 5 U.S.C. § 6323 requirements. The Agency's 1991 *Pay Administration Manual* similarly has not been updated to fully reflect 5 U.S.C. §§ 6323 and 5519 requirements.

Also, in accordance with 5 U.S.C. § 5538, effective March 15, 2009, agency heads are required, in consultation with the OPM, to prescribe procedures to carry



out the statute's requirements for reservist differential. The OPM's implementation guidance directs each agency to establish processes and procedures for implementing the reservist differential pay authority. The EPA has not updated any of its policies and procedures or adopted specific processes to address reservist differential.

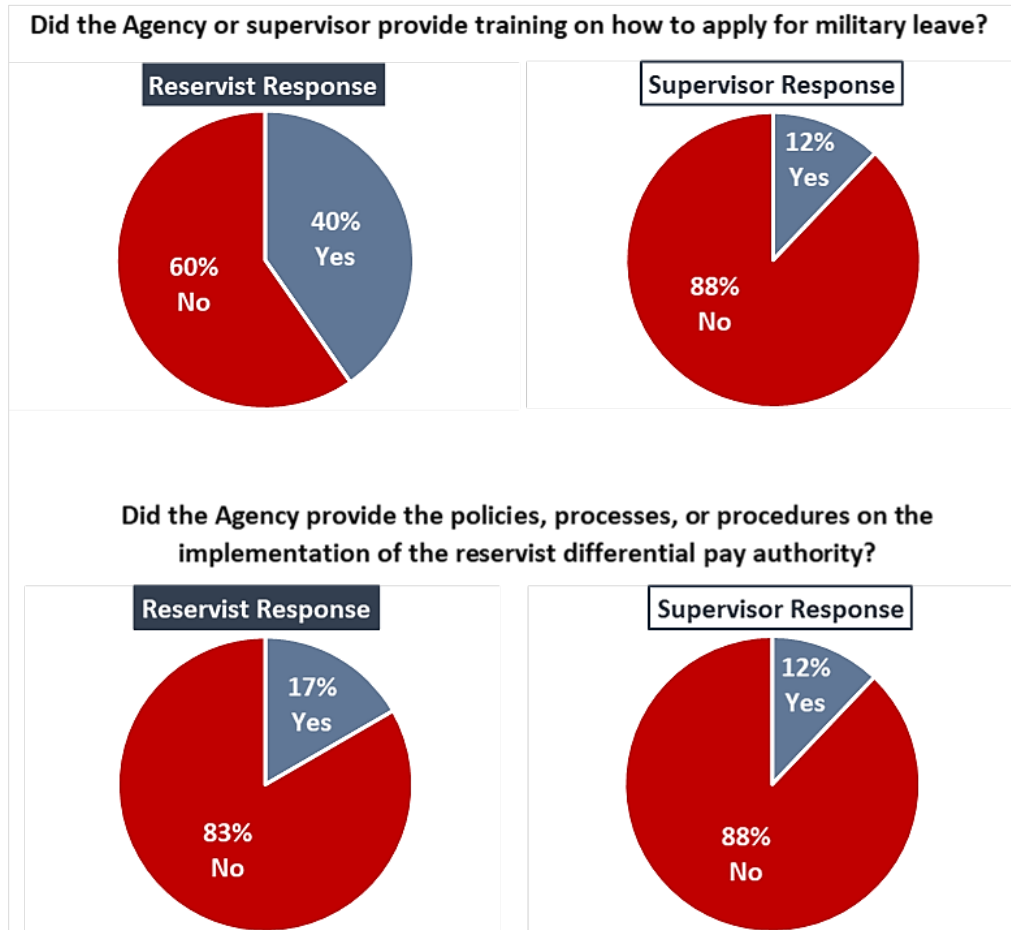
Because the Agency's policies and procedures are significantly outdated, it is possible that the EPA has not been paying the reservist differential it owes to reservists as far back as 2009, when 5 U.S.C. § 5538 was first enacted. Similarly, with respect to 5 U.S.C. §§ 6323 and 5519, reservists may have failed to pay the military offset due to the Agency since before the timeframe of this audit. These circumstances could result in additional improper payments not specifically identified in our audit.

### ***EPA Needs to Provide Resources for Military Leave***

The Agency lacks resources, such as current policies and procedures and training, for supervisors and reservists for military leave activity in PeoplePlus to ensure that time charges are correct. We surveyed all active reservists and their supervisors regarding their understanding of the EPA's military leave policies and procedures. This perspective is important because the Agency relies heavily on its reservists and their supervisors to properly record military leave activity in PeoplePlus.

Of the 233 individuals surveyed, we received responses from 105 individuals, a 45 percent response rate. As shown in Figure 1, more than 50 percent of the respondents indicated that there was a lack of guidance and resources for reservists and their supervisors. Some reservists and supervisors did indicate that they received assistance, such as policies, from the EPA regarding military leave.

Figure 1: EPA military leave survey results



Source: EPA reservist and supervisor survey results. (EPA OIG images)

Although the Agency relies almost exclusively on the reservist and supervisor as its primary internal control mechanism for compliance with federal requirements, the Agency has not provided the resources necessary for these internal controls to be effective.

**Reservist Perspective**

“Create formal in processing checklists outline discussion required w/in 30-60 days of employment or assigned to new position. Add to leadership training requirements, create & implement focused training on subject area, create resource information to be displayed in common areas & add to EPA @Work.”

—EPA reservist response to OIG survey

## ***EPA Needs to Implement A Process for Requesting Payroll Audit Calculations***

The EPA does not have a process in place for reservists or their supervisors to request military offset and reservist differential payroll audit calculations. As the Agency's payroll provider, the IBC performs payroll audit calculations to determine the dollar amount due either from the EPA's reservists (military offset) or to the EPA's reservists (reservist differential). However, the Agency or the reservists must request the calculation and provide the appropriate documentation, specifically military orders and military leave-and-earnings statements.

The IBC cannot automatically perform these audits because:

- Only the EPA supervisor would know when reservists return to civilian duty to trigger such an audit.
- The EPA supervisor would need to review the reservist's military orders to determine whether the reservist's military leave would require a military offset calculation under 5 U.S.C. § 5519.
- The EPA servicing personnel office needs to review documentation to determine whether reservists meet the reservist differential eligibility requirements under 5 U.S.C. § 5538.
- The IBC would not have the reservists' military leave-and-earnings statements and final military orders needed to perform the payroll audit calculations.

We found that the Agency lacks a process to identify whether:

- Reservists have requested that the IBC perform payroll audit calculations to determine military offsets, when required.
- Servicing personnel offices have requested that the IBC perform payroll audit calculations to determine reservist differential.

For those calculations requested, we found that neither the Agency nor its reservists have, as of May 2020, consistently submitted the necessary military documentation for the IBC to perform payroll audit calculations since the IBC began providing payroll services to the EPA in 2014. The lack of policies and procedures, coupled with the lack of monitoring by Agency officials, has resulted in potential underpayments and overpayments of military pay to its reservists.

Furthermore, in accordance with the Payment Integrity Information Act of 2019, the OCFO must report improper payments each year in the EPA's Annual Financial Report to Congress. Military leave payments that the EPA determines to

be improper must be reported for the Agency to comply with this statutorily mandated reporting requirement.

## **Conclusion**

The Agency's lack of effective internal controls over military leave caused a significant number of errors related to military leave transactions in the EPA's PeoplePlus system. It also resulted in potential improper payments made to military reservists. The EPA's OMS and OCFO have intersecting responsibilities for establishing and updating internal controls to properly implement time-and-attendance requirements, such as those related to military leave, that comply with federal requirements. Substantial improvements to the Agency's system of internal controls over military pay are needed to prevent the errors we identified during our audit and provide reasonable assurance that the EPA complies with and properly implements military leave requirements.

## **Recommendations**

We recommend that the assistant administrator for Mission Support and the chief financial officer:

1. Adopt and implement policies and procedures on military leave and pay requirements that comply with 5 U.S.C. §§ 5538, 6323, and 5519.
2. Provide resources for supervisors, timekeepers, and reservists on their roles and responsibilities related to military leave under the law and Agency policies.
3. Establish and implement internal controls that will allow the Agency to monitor compliance with applicable laws, federal guidance, and Agency policies, including periodic internal audits of all military leave, to verify that (a) charges by reservists are correct and supported and (b) appropriate reservist differential and military offset payroll audit calculations are being requested and performed.
4. Require reservists to correct and supervisors to approve military leave time charging errors in PeoplePlus that have been identified during the audit or as part of the Agency's actions related to Recommendations 5 and 6.
5. Recover the approximately \$11,000 in military pay related to unsupported 5 U.S.C. § 6323(a) military leave charges, unless the Agency can obtain documentation to substantiate the validity of the reservists' military leave.
6. Submit documentation for the reservists' military leave related to the approximately \$118,000 charged under 5 U.S.C. § 6323(b) to the EPA's

payroll provider so that it may perform payroll audit calculations and recover any military offsets that may be due.

7. Identify the population of reservists who took unpaid military leave pursuant to 5 U.S.C. § 5538 and determine whether those reservists are entitled to receive a reservist differential. Based on the results of this determination, take appropriate steps to request that the EPA's payroll provider perform payroll audit calculations to identify and pay the amounts that may be due to reservists.
8. For the time periods outside of the scope of our audit (pre-January 2017 and post-June 2019), identify the population of reservists who charged military leave under 5 U.S.C. § 6323(b) or 6323(c) and determine whether military offset was paid by the reservists. If not, review reservists' military documentation to determine whether payroll audit calculations are required. If required, request that the EPA's payroll provider perform payroll audit calculations to identify and recover military offsets that may be due from the reservists under 5 U.S.C. §§ 6323 and 5519.

We recommend that the chief financial officer:

9. Report all amounts of improper payments resulting from paid military leave for inclusion in the annual Agency Financial Report, as required by the Payment Integrity Information Act of 2019.

## **Agency Response and OIG Assessment**

The Agency concurred with all recommendations and provided an acceptable multiphase corrective action plan. The estimated dates for completion of the corrective actions range from June 30, 2021, to June 30, 2022. We consider all recommendations resolved with corrective actions pending. The Agency's complete response is in Appendix B.

To address the recommendations, the Agency identified corrective actions to be performed by the OMS and the OCFO, as follows:

1. The OMS will update policies and finalize procedures related to military leave and pay to comply with statutory requirements. The OCFO will update PeoplePlus or make other system changes in support of internal controls.
2. The OCFO will provide PeoplePlus training related to military leave and pay policies to supervisors, timekeepers, and military reservists.
3. As part of its internal control processes, the OMS will conduct periodic audits to ensure Agency compliance with updated military leave policy.

For any errors identified, the OCFO will work with the IBC to correct any timekeeping errors identified.

4. The OCFO will obtain and review documentation related to the time charging errors identified in this report and take appropriate actions to correct the errors.
5. For any unsupported leave charges under the 15-day military leave authority, the OMS will coordinate with the IBC to initiate a process to recover the military pay. The OCFO will recover any military pay related to unsupported leave charges for reservists who are no longer EPA employees.
6. The OMS will work with the EPA's programs and regions to collect documentation related to unsupported military leave charges under the 22-day emergency military leave authority. Unsupported military offsets will be recovered by the OMS and the OCFO, as applicable.
7. The OCFO will provide the OMS with the population of reservists charging military leave outside of the time frame of our audit testing. The OMS will review this information and determine which items need to be submitted to the IBC to determine whether military offsets were paid accurately.
8. For any military leave charges for which reservists were required to, but did not, reimburse the EPA for military offsets, the OMS will coordinate with the IBC to initiate the process to recover any military offsets. The OCFO will recover any military offsets for reservists who are no longer EPA employees.
9. The OCFO will report any paid military leave amounts identified as an improper payment within the annual Agency Financial Report for the applicable fiscal year. The OCFO will also perform an internal control review on military leave pay during the fiscal year 2021 Office of Management and Budget Circular A-123 Internal Review period and report any identified improper payment amounts in the fiscal year 2021 Annual Financial Report.

# Status of Recommendations and Potential Monetary Benefits

## RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	15	Adopt and implement policies and procedures on military leave and pay requirements that comply with 5 U.S.C. §§ 5538, 6323, and 5519.	R	Assistant Administrator for Mission Support and Chief Financial Officer	4/30/22	
2	15	Provide resources for supervisors, timekeepers, and reservists on their roles and responsibilities related to military leave under the law and Agency policies.	R	Assistant Administrator for Mission Support and Chief Financial Officer	4/30/22	
3	15	Establish and implement internal controls that will allow the Agency to monitor compliance with applicable laws, federal guidance, and Agency policies, including periodic internal audits of all military leave, to verify that (a) charges by reservists are correct and supported and (b) appropriate reservist differential and military offset payroll audit calculations are being requested and performed.	R	Assistant Administrator for Mission Support and Chief Financial Officer	6/30/22	
4	15	Require reservists to correct and supervisors to approve military leave time charging errors in PeoplePlus that have been identified during the audit or as part of the Agency's actions related to Recommendations 5 and 6.	R	Assistant Administrator for Mission Support and Chief Financial Officer	9/30/21	
5	15	Recover the approximately \$11,000 in military pay related to unsupported 5 U.S.C. § 6323(a) military leave charges, unless the Agency can obtain documentation to substantiate the validity of the reservists' military leave.	R	Assistant Administrator for Mission Support and Chief Financial Officer	8/31/21	\$11
6	15	Submit documentation for the reservists' military leave related to the approximately \$118,000 charged under 5 U.S.C. § 6323(b) to the EPA's payroll provider to perform payroll audit calculations and recover any military offsets that may be due.	R	Assistant Administrator for Mission Support and Chief Financial Officer	8/31/21	\$118
7	16	Identify the population of reservists who took unpaid military leave pursuant to 5 U.S.C. § 5538, and determine whether those reservists are entitled to receive a reservist differential. Based on the results of this determination, take appropriate steps to request that the EPA's payroll provider perform payroll audit calculations to identify and pay the amounts that may be due to reservists.	R	Assistant Administrator for Mission Support and Chief Financial Officer	2/28/22	
8	16	For the time periods outside of the scope of our audit (pre-January 2017 and post-June 2019), identify the population of reservists who charged military leave under 5 U.S.C. § 6323(b) or 6323(c) and determine whether military offset was paid by the reservists. If not, review reservists' military documentation to determine whether payroll audit calculations are required. If required, request that the EPA's payroll provider perform payroll audit calculations to identify and recover military offsets that may be due from the reservists under 5 U.S.C. §§ 6323 and 5519.	R	Assistant Administrator for Mission Support and Chief Financial Officer	2/28/22	
9	16	Report all amounts of improper payments resulting from paid military leave for inclusion in the annual Agency Financial Report, as required by the Payment Integrity Information Act of 2019.	R	Chief Financial Officer	12/1/21	

<sup>1</sup> C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

## Internal Control Assessment

This table identifies which internal control components and underlying principles are significant to the audit objectives.

Which internal control components are significant to the audit objective(s)?		Which internal control principles are significant to the audit objective(s)?	
<b>X</b>	<b>Control Environment</b> The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.	<b>X</b>	1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
		<b>X</b>	2. The oversight body should oversee the entity's internal control system.
		<b>X</b>	3. Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve the entity's objectives.
		<b>X</b>	4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
		<b>X</b>	5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
<b>X</b>	<b>Risk Assessment</b> Management assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.	<b>X</b>	6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
		<b>X</b>	7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
		<b>X</b>	8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
		<b>X</b>	9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
<b>X</b>	<b>Control Activities</b> The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.	<b>X</b>	10. Management should design control activities to achieve objectives and respond to risks.
		<b>X</b>	11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
		<b>X</b>	12. Management should implement control activities through policies.
<b>X</b>	<b>Information and Communication</b> The quality information management and personnel communicate and use to support the internal control system.	<b>X</b>	13. Management should use quality information to achieve the entity's objectives.
		<b>X</b>	14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
		<b>X</b>	15. Management should externally communicate the necessary quality information to achieve the entity's objectives.
<b>X</b>	<b>Monitoring</b> Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.	<b>X</b>	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
		<b>X</b>	17. Management should remediate identified internal control deficiencies on a timely basis.

Source: Based on internal control components and principles outlined in GAO-14-704G, *Standards for Internal Control in the Federal Government* (also known as the "Green Book"), issued September 10, 2014.



## Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

October 16, 2020

### MEMORANDUM

**SUBJECT:** Response to Office of Inspector General Draft Report No. OA&E-FY19-0286 “*EPA Needs to Oversee Its Military Pay Processes to Prevent Improper Payments,*” dated September 2, 2020

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

DAVID  
BLOOM

Digitally signed by DAVID  
BLOOM  
Date: 2020.10.16  
14:25:15 -0400'

Donna J. Vizian, Principal Deputy Assistant Administrator  
Office of Mission Support

Vizian,  
Donna

Digitally signed by Vizian,  
Donna  
Date: 2020.10.16  
13:43:44 -0400'

**TO:** John Trefry, Director  
Forensic Audits Directorate  
Office of Audit

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. The draft report assigned eight joint recommendations to both the Office of the Chief Financial Officer and the Office of Mission Support and one recommendation solely to the OCFO.

### AGENCY’S OVERALL POSITION

The agency concurs with the Office of Inspector General’s recommendations and has provided high-level intended corrective actions and estimated completion dates. The corrective actions have been reviewed by both the OCFO and OMS.

**AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS**

Agreements

<b>No.</b>	<b>Recommendation</b>	<b>Assigned to:</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion Date</b>
1	Adopt and implement policies and procedures on military leave and pay requirements that comply with 5 U.S.C. §§ 5538, 6323, and 5519.	OMS & OCFO	The OMS will update policy and finalize procedures to comply with statutory requirements.	June 30, 2021
			The OCFO will determine what system changes may be necessary to update PeoplePlus or make other changes in support of internal controls, where feasible, to comply with any policies and procedures related to military leave and pay policy.	October 31, 2021
			If changes are feasible and necessary, the OCFO will develop a schedule for implementation.	April 30, 2022
2	Provide resources for supervisors, timekeepers, and reservists on their roles and responsibilities related to military leave under the law and Agency policies.	OMS & OCFO	The OMS will update policy and finalize procedures to comply with statutory requirements.	June 30, 2021
			The OCFO will provide PeoplePlus training to support roles and responsibilities related to military leave and pay policy.	April 30, 2022
3	Establish and implement internal controls that will allow the Agency to monitor compliance with applicable laws, federal guidance, and Agency policies, including periodic internal audits of all military leave, to verify that (a) charges by reservists are correct and supported and (b) appropriate reservist differential and military offset payroll audit calculations are being requested and performed.	OMS & OCFO	The OMS will conduct periodic human capital audits to ensure compliance with the updated military leave policy.	June 30, 2022
			The OCFO will work with the Interior Business Center, the EPA’s payroll provider, to ensure the necessary timecard corrections identified by the OMS periodic audit were made by the employee and approved by the supervisor in accordance with agency policy. The OCFO will provide a report to the OMS confirming timecard corrections identified by the OMS periodic audit were made by the employee and approved by the supervisor for the OMS to distribute to the appropriate offices.	June 30, 2022

4	Require reservists to correct and supervisors to approve military leave time charging errors in PeoplePlus that have been identified during the audit or as part of the Agency's actions related to Recommendations 5 and 6.	OMS & OCFO	The OCFO will work with the agency's payroll provider to confirm the necessary time charging errors identified in the audit were corrected by the employee and approved by the supervisor; and the OCFO will then provide a report to the OMS confirming the necessary time charging errors identified in the audit were corrected by the employee and approved by the supervisor for the OMS to distribute to the appropriate offices.	September 30, 2021
5	Recover the approximately \$11,000 in military pay related to unsupported 5 U.S.C. § 6323(a) military leave charges, unless the Agency can obtain documentation to substantiate the validity of the reservists' military leave.	OMS & OCFO	For any unsupported leave charges, the OMS will coordinate with the IBC, the agency's payroll provider, to initiate the process to recover the military pay, and where applicable, the OCFO will recover any unsupported leave charges for out-of-service debt.	August 31, 2021
6	Submit documentation for the reservists' military leave related to the approximately \$118,000 charged under 5 U.S.C. § 6323(b) to the EPA's payroll provider to perform payroll audit calculations and recover any military offsets that may be due.	OMS & OCFO	The OMS will work with the EPA's programs and regions to collect documentation related to the identified military leave charges. For any unsupported leave charges, the OMS will coordinate with the IBC to initiate the process to recover any military offsets.	August 31, 2021
			The OCFO will recover any unsupported leave charges for out-of-service debt.	August 31, 2021
7	Identify the population of reservists who took unpaid military leave pursuant to 5 U.S.C. § 5538 and determine whether those reservists are entitled to receive a reservist differential. Based on the results of this determination, take appropriate steps to request that the EPA's payroll provider perform payroll audit calculations to identify and pay the amounts that may be due to reservists.	OMS & OCFO	The OCFO will provide the OMS with the population of reservists charging military leave. The OMS will conduct a review of this population to determine which items need to be provided to the IBC for audit calculation of whether military offsets were paid accurately.	December 31, 2021
			For amounts due to reservists who are no longer EPA employees, the OCFO will coordinate with the IBC on the amounts due.	February 28, 2022

8	For the time periods outside of the scope of our audit (pre-January 2017 and post-June 2019), identify the population of reservists who charged military leave under 5 U.S.C. § 6323(b) or 6323(c), and determine whether military offset was paid by the reservists. If not, review reservists' military documentation to determine whether payroll audit calculations are required. If required, request that the EPA's payroll provider perform payroll audit calculations to identify and recover military offsets that may be due from the reservists under 5 U.S.C. §§ 6323 and 5519.	OMS & OCFO	The OCFO will provide the OMS with the population of reservists charging military leave. The OMS will conduct a review of this population to determine which items need to be provided to the IBC for audit calculation of whether military offsets were paid accurately.	December 31, 2021
			For any unsupported leave charges, The OMS will coordinate with the IBC to initiate the process to recover any military offsets. The OCFO will recover any unsupported leave charges for out-of-service debt.	February 28, 2022
9	Report all amounts of improper payments resulting from paid military leave for inclusion in the annual Agency Financial Report, as required by the Payment Integrity Information Act of 2019.	OCFO	The OCFO will report any paid military leave amounts identified as an improper payment(s) within the annual Agency Financial Report for the applicable fiscal year; and the OCFO also will perform an internal control review on military leave pay during the FY 2021 A-123 Internal Review period and report any identified improper payment amounts in the FY 2021 AFR.	December 1, 2021

**CONTACT INFORMATION**

If you have any questions regarding this response, please contact the OCFO Audit Follow-up Coordinator, Andrew LeBlanc, at [leblanc.andrew@epa.gov](mailto:leblanc.andrew@epa.gov) or (202) 564-1761 or the OMS Audit Follow-up Coordinator, Mitchell Hauser, at [hauser.mitchell@epa.gov](mailto:hauser.mitchell@epa.gov) or (202) 564-7636.

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