

IMPROPER PAYMENTS INFORMATION ACT OF 2002 REPORTING DETAILS

Risk Assessments

To implement the Improper Payments Information Act of 2002 (IPIA) requirements, the Agency reviewed and sampled disbursements made in the highest risk susceptible inventories. EPA determined that its programs did not have “significant erroneous payments,” defined by the IPIA as payments exceeding \$10 million and 2.5% of program payments. Because the Clean Water and the Drinking Water State Revolving Funds (SRFs) are former Section 57 programs, EPA was required to submit an IPIA corrective action plan for them. The Agency’s corrective action proposed to reduce the error rate of improper payments in the SRFs from 0.51 percent to 0.30 percent over a five-year period. Since the end of FY 2005, EPA has continued to surpass the FY 2008 target of 0.30 percent. The error rates for these two programs were as follows:

Program: Clean Water and Drinking Water SRFs			
Fiscal Year	Outlays	Erroneous Payments	Error Rate
2004	\$2.1 billion	\$10.3 million	0.49 percent
2005	\$2.0 billion	\$ 3.0 million	0.15 percent
2006	\$2.3 billion	\$ 3.5 million	0.15 percent
2007	\$2.3 billion	\$1.64 million	0.07 percent
2008	\$2.1 billion	\$8.3 million	0.39 percent

Statistical Sampling Process

Based on having low error rates and less than \$10 million in erroneous payments, OMB approved relief from annual statistical sampling and reporting requirements for the Clean Water and Drinking Water State Revolving Fund (SRF) Programs for FY 2007 – FY 2009. EPA will need to conduct a risk assessment on these programs in three years (FY 2010), or may be required to re-initiate measurement activities if there are any substantial changes to the program (legislation, funding, etc.) that may impact payment accuracy.

Corrective Action Plans

In order to meet OMB’s objective, EPA initially conducted additional risk assessments by forming four subgroups with expertise in grants, contracts, payroll, and travel/purchase credit cards to review internal controls, identify and measure high risk areas, and develop corrective action plans for each subject area. Updated planned actions in each of the areas are as follows:

Grants

As described in Section II above, EPA was granted relief from annual statistical sampling of direct and subrecipient SRF payments. Since FY 2006, the Agency tracks erroneous payments by grant recipient in the Grantee Compliance Database.

During FY 2005, EPA performed an erroneous payments review for calendar year (CY) 2004 using judgmental risk-based sampling to select 267 grant recipients for administrative reviews including 111 non-profits grantees. Nineteen of the non-profit grantee reviews identified potential erroneous payments. In FY 2006, the Agency completed its risk-based judgmental CY 2005 sample of 99 non-profit recipient reports – 24 identified potential erroneous payments. In FY 2006, EPA introduced a new, random statistical sampling approach that categorizes grant recipients for review. In FY 2007, of the 60 CY 2006 statistically sampled non-profit grantee recipients reviewed, 27 were identified as having potential erroneous payments. In FY 2008, of the 60 CY 2007 statistically sampled non profit grantee recipients reviewed, 15 were identified as having potential erroneous payments. Final results for these 4 years provided in the table below.

The table below also reports updated information on the appeal process results (costs still in the recipient appeal) for these years. The Agency also reports on these results for the Improved Financial Management initiative of the President's Management Agenda.

Non-Profit Grantees Review/Audit Results	CY 2004 Review	CY 2005 Review	CY 2006 Review	CY 2007 Review
Total dollars drawn	\$9,065,389	\$20,222,038	\$29,373,772	\$22,544,462
All potential erroneous payments cited	\$650,799	\$1,016,967	\$562,394	\$384,352
Questioned costs determined allowable	\$646,237	\$329,378	\$523,227	\$307,919
Actual erroneous payments (unallowable costs)	\$18,755	\$687,589*	\$39,167	\$13,433
Costs that have been recovered	\$18,755	\$57,791	\$6,280	\$13,433
Costs still in recipient appeal process	\$0	\$0	\$0	\$0
Percent of erroneous payments	0.207 %	3.400 %	0.133 %	0.059 %

* Of the \$687,589 in final erroneous payments identified for CY 2005, \$629,798 (or 91.6%) was associated with a single earmark award. But for this one earmark, erroneous payments for sampled grants during CY 2005 were \$57,791, equal to 0.2857% of total disbursements for sampled grants, and well below EPA's target metric of 1% of total disbursements. In response to the Agency's findings, the earmark grant has been terminated and the recipient suspended, as shown on GSA's Excluded Parties List System.

Contracts

EPA continues to take appropriate action as needed to reduce or eliminate improper payments. The appropriate Contracts Officer Representatives or On Scene Coordinators are notified of all improper payment discovered. In January 2003, EPA implemented a monthly Improper Contract Payment Report. The report captures the number of improper payments per month and provides information on each improper payment including the reason and recovery status. In FY 2006, the Agency received final Recovery Audit Report – and audit reviewed 376,000 small purchase and contract payment transactions worth \$6.5 billion. The Audit Recovery contract reviewed 100,471 contract payments totaling \$4.3 million and found only 4 erroneous

payments (a 0.01 percent error rate). EPA has addressed all audit recommendations cited in the Recovery Audit Report.

Results of EPA's Improper Contract Payments Report			
Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2003*	25 (of 24,056)	\$206.1	0.02 percent
2004	21 (of 24,886)	\$748.5	0.08 percent
2005	21 (of 26,305)	\$121.5	0.01 percent
2006	25 (of 28,098)	\$406.5	0.03 percent
2007	14 (of 29,828)	\$65.3	0.01 percent
2008	12 (of 32,043)	\$324.0	0.03 percent

* FY 2003 only included data from January through September.

Based on EPA's excellent performance and effective controls, the Agency does not plan future externally conducted recovery audits. Formal Recovery Audit have demonstrated a low rate of erroneous payments whereby making it not cost effective to conduct these external audits. The Agency continues to use a monthly Improper Contracts Payment Report as the tool for monitoring payments.

Commodity Payments

Since no high risk areas have been identified, no corrective action is required. EPA continues to take appropriate action as needed to reduce or eliminate any improper payments. The commodity payments were included in the FY 2006 completed Recovery Audit described above in Section III.B. Contracts. The Recovery Audit contractor reviewed 275,185 invoices paid totaling \$2.2 million and found 31 improper payments (less than 0.01 percent error rate). The improper commodity payments were attributed to product returns not deducted, duplicate payments due to keypunch errors and vendor number errors, cash discounts not taken, and state and local tax exemptions not taken. As of January 2006, the Agency consolidated its commodity payments operation to one Finance Center. The consolidation achieves a higher degree of internal control, consistency and oversight. The consolidation plus several other corrective actions addressed the Recovery Audit Report recommendations. In preparation for replacing the core financial system, EPA reviewed the vendor file to ensure the accuracy of all vendor codes.

The Agency implemented a commodities payment tracking mechanism in January 2004 to gather improper payment data. This tracking system provides the data for a monthly Improper Commodities Payment Report which includes information on each improper payment. Given the low rate of erroneous payments, EPA does not plan future externally conducted recovery audits – a formal Recovery Audit is not cost effective for the contractor who is paid based on erroneous payments found/recovered. The Agency will continue using the monthly Improper Commodities Payment Report as the tool for monitoring these payments.

Results of EPA's Improper Commodity Payments Report			
Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2005	40 (of 42,698)	\$416.0	0.17 percent
2006	102 (of 50,665)	\$695.5	0.23 percent
2007	63 (of 45,859)	\$176.5	0.06 percent

2008	48 (of 43,629)	\$215.4	0.08 percent
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Payroll

By December 31, 2004, the Payroll Workgroup completed a comprehensive review of internal controls and submitted recommendations to reduce improper payments. Additionally, in FY 2005, the workgroups developed a corrective action plan/best practices. EPA implemented these corrective actions before the Agency transferred the payroll disbursement function to the Department of Defense in May 2006. EPA now benefits from the combination of both agencies internal controls.

Travel Card/Purchase Card

The Agency continues to monitor the travel and purchase charge card transactions in accordance with the Agency policies and procedures. In addition, EPA monitors the issuance of purchase cards to ensure that spending limits and span of control are kept to a minimum. The Agency implemented a monitoring program that requires each of the Senior Resource Official to perform biennial reviews of the purchases made within their program offices. These reviews ensure that integrity of the purchase card program. EPA continues to use several additional controls.

- Notify card holder's approving official via email for each purchase – daily;
- Conduct routine reviews on various transactions; and
- Review Agency Atypical Report which identifies airline ticket purchase without authorizations.

Improper Payment (IP) Reduction Outlook FY 2005 – FY 2009

(Dollars in millions)

Program	FY 2005 Outlays	FY 2005 IP%	FY 2005 IP \$	FY 2006 Outlays	FY 2006 IP%	FY 2006 IP \$	FY 2007 Outlays	FY 2007 IP%	FY 2007 IP \$	FY 2008 Outlays	FY 2008 IP%	FY 2008 IP \$	FY 2009 Outlays	FY 2009 IP%	FY 2009 IP \$
Clean Water and Drinking Water SRFs	\$1,963 (actual)	0.45 target 0.15 actual	\$3.0	\$2,303 (actual)	0.40 target 0.15 actual	\$3.5	\$2,344	0.35 target 0.7 actual	\$1.60	\$2,143 (est.)	0.30 target 0.39 actual	\$8.3	\$2,100 (est.)	0.30 target 0.30 est.	\$6.3 (est.)

Ensuring Management Accountability

As previously outlined in the corrective action plans, the Agency continues to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits for the two SRFs, our largest grant programs, is reported semi-annually to management in both the Office of Water and the Office of the Chief Financial Officer. In all

cases action is taken with the appropriate officials to ensure improper payments are recovered and to avoid future improper payments. Similar monitoring through reports is done for the contract and commodities payment areas.

Information Systems and Infrastructure

The Agency's information systems are sufficient to reduce improper payments to targeted levels.

Statutory and Regulatory Barriers

None.

Conclusions

EPA met all of the requirements and received a Green Status on Eliminating Improper Payments as of June 30, 2008. The Agency continues to demonstrate a low level of risk for the SRF programs through random statistical sampling of direct payments and targeted state reviews. In FY 2007, based on the guidelines contained in Appendix C to OMB Circular A-123, Part I, Section K (program has documented a minimum of two consecutive years of improper payments that are less than \$10 million annually), EPA requested and received relief from the annual statistical sampling and reporting requirements of the IPIA for the Clean Water and Drinking Water SRFs. This waiver for statistical testing of SRF transactions covers fiscal years 2007-2009. EPA will be required to resume statistical assessment and report on the SRF programs in the FY 2010 PAR. OMB's approval of the three-year waiver is contingent on no significant legislative or programmatic changes, significant funding increases and/or any change that would result in substantial program impact. If such changes occur, the Agency must reinitiate risk assessments and comply with IPIA reporting requirements if there is significant risk of improper payments occurring.

For FY 2008, EPA committed to the following activities:

- Continue to monitor commercial payments to ensure accurate characterization of monitoring efforts annually in the PAR; and
- Brief OMB, as needed, depending on program changes, legislative and/or funding revision, or anything that development from EPA's monitoring.