



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Spending Taxpayer Dollars

Improved Oversight of EPA's Grant Monitoring Program Will Decrease the Risk of Improper Payments

Report No. 15-P-0166

June 11, 2015



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Report Contributors:

Janet Kasper
Ethel Lowery
Madeline Mullen
LaTanya Scott

Abbreviations

AAM	Advanced Administrative Monitoring
CFR	Code of Federal Regulations
CY	Calendar Year
EPA	U.S. Environmental Protection Agency
GC&RA	Grantee Compliance and Recipient Activity
GMO	Grants Management Office
OARM	Office of Administration and Resources Management
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget

Cover photo: Sulphur Springs City Hall was cleaned up with EPA Brownfield grant funds.
(Photo courtesy of the city of Sulphur Springs, Texas)

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EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
Washington, DC 20460
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At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), conducted this audit to determine whether the EPA's advanced administrative monitoring (AAM) system is effective for ensuring grant recipient costs are allowable, allocable and reasonable.

The OIG conducted this audit in part to follow up on a recommendation from EPA OIG Report No. 13-P-0361, *EPA Needs to Improve STAR Grant Oversight*, issued August 27, 2013.

The purpose of AAM is to conduct an in-depth assessment of a grant recipient's administrative and financial progress, as well as examine the management of the grant. AAM also includes tests to ensure that claimed costs are allowable, allocable and reasonable.

This report addresses the following EPA goal or cross-agency strategy:

- *Embracing EPA as a high-performing organization.*

Send all inquiries to our public affairs office at (202) 566-2391 or visit www.epa.gov/oig.

The full report is at: www.epa.gov/oig/reports/2015/20150611-15-P-0166.pdf

Improved Oversight of EPA's Grant Monitoring Program Will Decrease the Risk of Improper Payments

What We Found

Advanced administrative monitoring oversight was not always effective for ensuring grant recipient costs are allowable, allocable and reasonable. The Office of Management and Budget provides guidance on the allowability, allocability and reasonableness of costs, and the EPA provides guidance on conducting AAM reviews.

However, EPA guidance and reference materials do not clearly state that AAM reviews are to assess whether the reviewed costs meet the requirements of applicable federal cost principles. Confusing or insufficient guidance contributes to the difficulties grant specialists have with AAM reviews. Insufficient oversight of AAM reviews increases the risk of improper payments, so that AAM reviews cannot be relied on to accurately identify whether costs are allowable, allocable and reasonable. During our audit, we found inadequate documentation of costs totaling \$507,168 for AAM reviews that did not have adequate cost support for federal funds drawn.

EPA oversight of AAM reviews did not protect \$507,168 in taxpayer dollars.

Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for the Office of Administration and Resources Management (OARM) implement a process to enhance quality-control reviews of AAM reports. The process should include review of supporting documentation.

We also recommend that OARM issue national guidance to EPA Grants Management Offices. The guidance should clarify step-by-step processes needed to conduct transaction testing, and include provisions for tracing costs to source documents to ensure expended costs are allowable, allocable, reasonable, and aligned with the approved budget and project activities. In addition, we recommend that the EPA follow up on undocumented costs identified in the OIG finding and require grant recipients to reimburse the agency for costs deemed unallowable based on insufficient and/or unacceptable source documentation.

In its response, OARM agreed with all of the recommendations and provided planned corrective actions with completion dates to address all of the draft report's recommendations.

Noteworthy Achievements

EPA Region 2 conducted an AAM review of a grant recipient. The recipient was not in compliance with EPA grant requirements for documenting policies, procedures and drawdown costs. Region 2 conducted extensive follow-up on this AAM review, and the region's attention to detail helped to ensure taxpayer dollars are protected.



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

THE INSPECTOR GENERAL

June 11, 2015

MEMORANDUM

SUBJECT: Improved Oversight of EPA's Grant Monitoring Program
Will Decrease the Risk of Improper Payments
Report No. 15-P-0166

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Karl Brooks, Acting Assistant Administrator
Office of Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position.

The office responsible for implementing the recommendations is the Office of Grants and Debarment within the EPA's Office of Administration and Resources Management.

Action Required

In response to the draft report, the agency provided planned corrective actions that address the recommendations and establishes milestone dates. Therefore, a response to the final report is not required. The agency should track corrective actions not implemented in the Management Audit Tracking System.

We will post this report to our website at <http://www.epa.gov/oig>.

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Purpose

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), conducted this audit in part to follow up on a recommendation concerning advanced administrative monitoring (AAM), which was noted in EPA OIG Report No. 13-P-0361, *EPA Needs to Improve STAR Grant Oversight*, issued August 27, 2013. During that audit we found the EPA did not ensure costs were allocable to a sampled grant, and the agency did not request certified effort reports.

Our audit objective for this review was to determine whether the EPA's advanced administrative monitoring system is effective for ensuring grant recipient costs are allowable, allocable and reasonable.

Background

Grant responsibilities are shared between EPA program offices and the Office of Grants and Debarment (OGD) within the Office of Administration and Resources Management. OGD is responsible for the financial management of EPA grants. OGD's responsibilities include, among other things, baseline and AAM reviews.

Baseline monitoring is the periodic review of a grant recipient's progress and compliance with an award's scope of work, terms and conditions, and regulatory requirements. AAM monitoring is an in-depth assessment of a grant recipient's progress and management of the grant. Statistical sampling is used to select a percentage of grants for AAM review each year. Most reviews are done by OGD staff from EPA headquarters or by the 10 EPA regions, but many are done by contractors.

The agency maintains the Grantee Compliance and Recipient Activity (GC&RA) summary database as a central repository for information related to EPA grant recipients. The database includes past grant activity and information about the capacity of recipients to effectively manage grant funds. All advanced monitoring activities must be recorded in the database, along with attached reports that count as part of the Grantee Compliance Assistance Initiative outlined in EPA Order 5700.6. The primary purpose of the database is to provide accurate information about grant recipient compliance activities to EPA staff in headquarters, regional programs, and in Grants Management Offices (GMOs).

The Office of Management and Budget (OMB) provides guidance in the Code of Federal Regulations (CFR) regarding the allowability, allocability and reasonableness of costs charged to federal grants. The guidance is known as cost principles and determines whether costs can be charged to federal grants for the following types of recipients:

- Nonprofit organizations (2 CFR Part 230).
- State, local and tribal governments (2 CFR Part 225).

Depending on the type of cost claimed, recipients are required to maintain different types of support documentation as shown in Table 1.

Table 1: Acceptable documentation for claimed costs

Type of cost	Type of documentation
Personal services (salaries)	When employees work on multiple activities, the distribution of salaries will be supported by personnel activity reports or equivalent documentation.
Fringe benefits	Support is from established leave policies. Costs are equitably allocated. The accounting basis is consistently followed.
Travel	Support indicates travel is allocable to a federal award and adequately documented.
Procurement	Support indicates items such as supplies are allocable to a federal award and are adequately documented.

Source: OIG analysis of 2 CFR Part 225 (state, local and tribal governments) and Part 230 (nonprofit).

Responsible Office

The Office of Grants and Debarment within the EPA’s Office of Administration and Resources Management is responsible for oversight of AAM of grants. However, regional GMOs have responsibilities for assigned individual AAM reviews and follow-up.

Noteworthy Achievements

EPA Region 2 conducted an AAM review of a nonprofit grant recipient. The recipient was not in compliance with EPA grant requirements for documenting policies, procedures and drawdown costs. Region 2 said it has extensive experience with AAM reviews and has placed many recipients in the high-risk category. In the case of this particular nonprofit, Region 2 disallowed the costs and placed the recipient in the high-risk category. Region 2 also provided the nonprofit grant recipient with guidance for developing a successful grants management system that included guidance on personnel, fringe benefits, timekeeping, as well as templates to help the recipient draft procedures. Region 2 conducted extensive follow-up on this AAM review, and the region’s attention to detail helped to ensure taxpayer dollars are protected. This is a best practice that should be considered by other regions.

Scope and Methodology

We conducted our performance audit from April 2014 through March 2015, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 objective.

During calendar year (CY) 2013, the EPA reported 119 AAM reviews of drawdowns totaling \$22,817,844. Of the 119 reviews, 64 reviews were performed by EPA and 55 by contractors. We selected a stratified random sample of 13 grant recipients that experienced an AAM review during CY 2013. Our sample included AAM reviews of grants awarded by headquarters and each EPA region. Five of the 13 reviews were performed by contractors and eight were performed by EPA staff.

To answer our audit objective, we analyzed the following:

- EPA guidance and policies to determine grant specialist responsibilities and oversight of AAM reviews.
- CFR sections related to costs.
- Sampled AAM records from the GC&RA database.

When database information was not as complete as required, we requested additional documentation. During our audit of AAM reviews, we analyzed documentation consisting of advanced monitoring reports, questionnaire results, financial drawdowns, and supporting documents. In the case of four of the AAM reviews, we obtained and reviewed missing supporting documentation from grant recipients.

We interviewed grant specialists, contractors and grant recipients about issues noted during our audit, and to obtain additional support for costs claimed. We also met with OGD staff to discuss the AAM monitoring process including: AAM procedures, challenges and results; grant recipient documentation of financial records; and responsibilities for ensuring costs are allowable, allocable and reasonable.

There are no prior U.S. Government Accountability Office audits impacting the objective of this assignment. One AAM recommendation was noted in EPA OIG Report No. 13-P-0361, *EPA Needs to Improve STAR Grant Oversight*, issued August 27, 2013 (www.epa.gov/oig/reports/2013/20130827-13-P-0361.pdf). We discuss the EPA's implementation of the previous report's recommendation on page 9 of this current report.

EPA's Advanced Administrative Monitoring Reviews Generally Are Effective but Need Improvement

EPA oversight of AAM reviews was not always effective for ensuring grant recipient costs are allowable, allocable and reasonable. OMB provides guidance on the allowability of costs, and the EPA provides guidance on conducting AAM reviews. However, EPA guidance and reference materials do not clearly state that advanced monitoring reviews are used to assess whether the reviewed costs meet the requirements of applicable federal cost principles.

Insufficient oversight of AAM reviews increases the risk of improper payments made with taxpayer dollars. AAM reviews cannot be relied on to accurately identify whether costs are allowable, allocable and reasonable. During our audit, we found inadequate documentation of costs totaling \$507,168. This total includes grant recipients that did not have adequate documentation to support federal funds drawn, and AAM reviews completed without adequate support.

EPA Provides Guidance for Cost Reviews

EPA Order 5700.6A2, *Policy on Compliance, Review, and Monitoring*, states that the purpose of AAM is to conduct an in-depth assessment of a grant recipient's administrative and financial progress, as well as examine the management of the grant. Each review must use the appropriate administrative protocol published by the OGD's National Policy, Training and Compliance Division, and maintained on the OGD's website. The protocol is a questionnaire that the grant recipient completes regarding the policies, procedures and cost information. The protocol references OMB cost principles that require costs to be allowable, allocable and reasonable.

Grant specialists are responsible for maintaining appropriate file documentation and recording monitoring reports within the GC&RA database. When the AAM review requires corrective actions, resolution of the actions is expected within 120 calendar days of the draft report date (or final report date for contractor reviews), unless explained in the database and outlined in the report.

AAM reviews conducted by contractors are described in EPA contract EP-W-12-015. The contract requires contractors to conduct limited-scope administrative and financial management system reviews. Those reviews require interviews; review of administrative policies, procedures and the recipient's financial management system; and the testing of a limited quantity of financial transactions using the completed *Advanced Post Award On-Site Protocol* as a guide.

The EPA's *Required Format for Writing an Administrative Onsite/Desk Review Report* provides additional details about AAM reviews. It states that the objectives are to assess the effectiveness of the recipient's control and accountability of EPA grant funds, as well as determine whether the recipient's

administrative and financial management systems generally meet the requirements of the applicable Code of Federal Regulations, OMB cost principles, and terms and conditions of the agreements. Support documents for EPA funds drawn should include detailed accounting records that document payroll, travel, other expenses, etc., by project. Payrolls, travel, fringe benefits, supplies, equipment, contracts and subgrant charges should be supported with timesheets, executed agreements, travel vouchers and invoices.

EPA Oversight Does Not Ensure All Reviewed Costs Are Allowable, Allocable and Reasonable

EPA oversight has not effectively ensured that grant specialists and contractors confirm grant recipient costs were allowable, allocable and reasonable during transaction testing, or that policies and procedures were acceptable. Also, the EPA did not always follow up on corrective actions, and some corrective actions only received follow-up after OIG inquiry. Table 2 shows the drawdown amounts tested, amounts the EPA questioned, and whether we found AAM reviews were adequate.

Table 2: Drawdown amounts reviewed for AAM

Grant recipient	Drawdown amounts tested	Amount EPA questioned	Was AAM review adequate?
#1	\$122,708	\$0	No
#2	\$200,000	\$0	Yes
#3	\$41,895	\$0	No
#4	\$64,459	\$0	No
#5	\$200,000	\$0	No
#6	\$59,000	\$59,000	Yes
#7	\$25,000	\$0	No
#8	\$6,135	\$0	Yes
#9	\$51,330	\$0	Yes
#10	\$78,950	\$0	Yes
#11	\$95,873	\$2,049	Yes
#12	\$305,019	\$0	No
#13	\$74,219	\$0	No
Total	\$1,324,588	\$61,049	--

Source: OIG analysis of AAM documentation.

EPA Did Not Always Review Sufficient Cost Documentation

For seven out of 13 AAM reviews, the EPA did not review adequate supporting cost documentation to determine whether costs were allowable, allocable and reasonable. Those conducting the reviews said they:

- Did not realize that 100-percent review of documentation was required.
- Had limited access to records.
- Did not understand the grant recipient’s accounting system, so support was not obtained or used.

In one case involving support for payroll costs, the EPA accepted time reports from the accounting system and pay stubs to support time charged to the grant, even though the regulations require personnel activity reports signed by the employee to support labor charges.

The EPA questioned less than 5 percent of the tested transactions for the 13 advanced monitoring reviews, but we found that 38 percent of the transactions should be questioned or were not adequately supported. The EPA did not review adequate supporting cost documentation as shown in Table 3.

Table 3: Inadequate documentation accepted by EPA during AAM reviews

Recipient	Drawdown amount tested	Type of cost	Inadequate documentation	Associated cost
#1	\$122,708	Fringe benefits and adjustments	Did not review any documentation to support \$492 in fringe benefits charged to the grant. Did not verify that adjustments of \$40,900 were adequately supported.	\$41,392
#3	\$41,895	Subaward	Accepted the invoice from the subrecipient as support for subrecipient costs, but did not review how the recipient evaluated subrecipient costs.	\$41,895
#4	\$64,459	Payroll, indirect costs, fringe benefits and procurement	Payroll—Employee pay stubs with total salary and a computer printout of time charges to various projects were accepted as support for some payroll costs. The documentation did not show total dollars charged to the grant. Indirect costs and fringe benefits—The costs as claimed were accepted without verifying if the rates were approved. Procurement—Invoices were accepted, but the documents did not show how the grantee determined costs were allocable to the grants.	\$50,071
#5	\$200,000	Travel	Supporting documentation was reviewed, but the documentation did not add up to the total cost requested for reimbursement.	\$88
#7	\$25,000	Payroll	Timesheets and a payroll ledger for costs claimed were accepted, but the documentation did not reconcile to the total costs drawn down by the recipient.	\$25,000

Recipient	Drawdown amount tested	Type of cost	Inadequate documentation	Associated cost
#12	\$305,019	Payroll, fringe benefits, travel and procurement	<p>Payroll—A pay register and timesheets were reviewed, but those documents did not account for all costs claimed for reimbursement.</p> <p>Fringe benefits—Documentation that supports fringe benefits charged to the grant were not reviewed.</p> <p>Travel—A general ledger was reviewed, but receipts that support the expenses of one traveler were not reviewed.</p> <p>Procurement—A statement of revenue and expenditures was reviewed, but not all costs were supported.</p>	\$287,336
#13	\$74,219	Procurement and travel	<p>Two invoices were reviewed, but not all the detailed support.</p> <p>Contractor did not have any support for two of the tested drawdowns.</p>	\$61,386
Total	\$833,300			\$507,168

Source: OIG analysis of AAM documentation.

Recipient Policies and Procedures Were Not Always Reviewed

The EPA reviewed the adequacy of policies and procedures for 10 of the 13 AAM reviews. However, for three AAM reviews, the EPA did not review recipient policies and procedures for compliance with federal regulations (Table 4).

Table 4: Policies and procedures not reviewed

Recipient	Not reviewed
#7	A grant specialist said he was not familiar with the recipient's policies and procedures for drawing funds and payroll/personnel, so the policies and procedures were not reviewed.
#12	The contractor stated that he was working alone on the review, so he did not have time to review them.
#13	The contractor said he asked for policies and procedures, but they were not reviewed to ensure consistency with federal cost principles.

Source: OIG analysis of AAM documentation.

Not All Corrective Actions Were Completed in a Timely Manner

The EPA conducted timely follow-up within 120 days for six of the nine reviews. Three reviews were not timely. If follow-up is not timely, needed improvements could be delayed (Table 5).

Table 5: Delayed follow-up on AAM review findings

Grant recipient	EPA or contractor	Date of report	Corrective action due	Date follow-up occurred	Closure date in IGMS	Time elapsed	Did follow-up exceed 120 days?
#5	EPA	01/23/14	05/15/14	09/19/14	09/19/14	8 months	Yes
#12	Contractor	08/22/13	09/23/13	10/27/14	Not closed	14 months	Yes
#10	Contractor	01/31/14	Not specified	11/04/14	11/05/14	9 months	Yes

Source: OIG analysis of AAM and follow-up documentation.

Guidance and Oversight Should Be Improved

EPA guidance and reference materials do not clearly state that AAM reviews are used to assess whether the costs being reviewed meet the requirements of applicable federal cost principles. EPA grant reference materials do not clearly identify the criteria the grant specialist or contractor are to use during advanced monitoring reviews. EPA Order 5700.6A2 states that each review must use the appropriate administrative protocol. However, according to the Director of the OGD's National Policy, Training and Compliance Division, the information on OGD's website, which includes the administrative protocol, is not mandatory.

Guidance Is Not Clear

While EPA policy requires the use of the administrative protocol, the protocol does not specify how the grant specialist or contractor is to evaluate information the recipient provides. OGD reference material does not clearly identify which criteria are to be used to evaluate grant recipient costs. OGD's website contains three reference documents for AAM reviews: 1) required format; 2) guidance for on-site reviews; and 3) guidance for desk reviews (Table 6). Each document provides some information about testing transactions, but does not provide specific guidance on evaluating transactions.

Table 6: OGD reference instructions

OGD reference	Instructions for reviewing costs
<i>Required Format for Writing an Administrative Onsite/Desk Review Report</i>	In describing what is to be included in the advanced monitoring report, the reference material identifies the types of supporting documentation that the recipient should have to support the sampled drawdowns. However, the reference document does not identify the criteria for evaluating the documentation.
<i>Grants Management Office On-Site Review Preparation Guidance</i>	The reviewer is to judgmentally select samples to ascertain whether procedures are working and costs claimed are allowable, allocable and reasonable under the assistance agreement. This guidance mentions the cost principles, but does not provide any guidance for applying the cost principles when reviewing cost documentation.
<i>Off-Site/Desk Review Guidance</i>	The guidance does not contain any instructions concerning how to review costs.

Source: OIG analysis of OGD reference materials.

Confusing or insufficient guidance contributes to the difficulties grant specialists have with AAM reviews. One grant specialist said that she did not receive formal training, even though she was conducting her first review. Thus, she was not aware of subaward requirements and did not determine whether the grant recipient was complying with subaward monitoring requirements. Another grant specialist said the process associated with verifying costs was not easy, so he relied on assistance from the grant recipient. The grant specialist was not aware of support that he should have obtained. The lack of clarity in reference materials also contributes to the confusion that grant specialists experience when conducting AAM reviews.

Oversight Should Be Improved

For quality assurance purposes, OGD reviews AAM draft reports to ensure the reports show what was covered in the review. However, supporting documentation is not reviewed. Consequently, OGD was not aware that some grant specialists and contractors were not reviewing the supporting documentation needed to verify whether costs are allowable, allocable and reasonable. Without reviewing supporting documentation, OGD cannot be assured that AAM reviews are thorough and reliably reflect improper payments.

The AAM point of contact for OGD said grant specialists are not accountants or auditors, and AAM reviews are not formal audits. OGD oversight also did not include checking on whether grant specialists were following up on corrective actions needed as a result of AAM reviews. In light of these challenges, AAM reviews would benefit from increased OGD oversight and quality assurance checks.

Corrective Actions From Previous OIG Report Incomplete

The EPA did not take the corrective action that the OIG intended for a recommendation made in EPA OIG Report No. 13-P-0361, *EPA Needs to Improve STAR Grant Oversight*, issued August 27, 2013 (www.epa.gov/oig/reports/2013/20130827-13-P-0361.pdf). The OIG recommended that OGD issue guidance to grant specialists to remind them that during transaction testing they are required to trace costs to source documents and make a determination as to whether costs are related to the activities funded by the grant.

The EPA reported in its Management Audit Tracking System that corrective actions were complete, but the agency only sent an email reminder to grant specialists in EPA headquarters. Since it was not national guidance, the email reminder did not reach the grants staff in any of the regions, because the EPA believed the recommendation was for grant specialists monitoring Science to Achieve Results or “STAR” grants in headquarters and not the regions.

Lack of AAM Oversight Increases Risk of Improper Payments

The EPA’s insufficient oversight of AAM reviews increases the risk of improper payments with taxpayer dollars. Without reviewing supporting documentation, OGD cannot be assured that AAM reviews reliably reflect improper payments or accurately identify whether costs are allowable, allocable and reasonable. Questioned and unsupported costs represent funds that can be put to better use. The EPA has a fiduciary responsibility to ensure that all claimed costs reviewed during AAM are allowable, allocable and reasonable. When a grant recipient does not provide the EPA with the supporting documentation needed to verify the allowability of costs, this may indicate the costs are not allowable or that the required documentation does not exist.

AAM reviews did not have adequate documentation to support federal funds drawn totaling \$507,168. For example, in one of the AAM reviews, labor costs were charged to several EPA grants. However, the grantee did not have timesheets to show how the time was allocated. In addition, if a grant recipient mistakenly charges time for other activities to an EPA grant that was funded to sample and assess surface water quality, those charges could reduce the time and number of samples and assessments expected under the EPA grant.

The EPA uses the results of AAM review transaction testing to conduct a quantitative risk assessment for improper payments. Costs that are paid to recipients, and are not found to be allowable, allocable and reasonable, meet the definition of improper payments. When the EPA does not adequately review costs during AAM reviews, the agency underestimates the improper payments that may exist within the grant program.

Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management:

1. Implement a process to enhance quality-control reviews of AAM reports. The process should include review of supporting documentation.
2. Issue national guidance to the agency's GMOs. The guidance should clarify step-by-step processes needed to conduct transaction testing, and include provisions for tracing costs to source documents to ensure expended costs are allowable, allocable, reasonable, and aligned with the approved budget and project activities.
3. Follow up on undocumented costs identified in the OIG finding and require grant recipients to reimburse the agency for costs deemed unallowable based on insufficient and/or unacceptable source documentation.

Agency Response and OIG Evaluation

The agency agreed with the recommendations and provided planned corrective actions with milestone dates.

In response to Recommendation 1, the EPA included two corrective actions:

- All GMOs will be required to implement quality control measures for AAM reviews (desk and on-site) conducted by EPA staff. This will include reviewing supporting documentation prior to finalizing and transmitting the AAM report to the recipient.
- OGD will develop and implement quality control procedures to ensure that all contractor-conducted, AAM on-site reviews are properly conducted. This includes reviewing contractor work papers and source documentation provided during the course of the review prior to transmitting the AAM report to the recipient.

These actions will be completed by September 30, 2015. When implemented, the corrective actions should address Recommendation 1.

In response to Recommendation 2, the EPA stated that OGD is in the process of developing a standard operating procedure for AAM, which will address each of the areas identified by the OIG. Once the procedure is finalized, all GMOs and EPA grants staff will be required to follow the procedure when conducting AAM reviews. These actions will be completed by September 30, 2015. When implemented, the corrective actions should address Recommendation 2.

In response to Recommendation 3, the EPA included two corrective actions:

- GMOs will follow up with each of the recipients directly to request additional documentation to support questioned costs.
- GMOs will review the documentation and require reimbursement with unallowable costs in accordance with applicable agency procedures.

These actions will be completed by December 31, 2015. When implemented, the corrective actions should address Recommendation 3.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	11	Implement a process to enhance quality-control reviews of AAM reports. The process should include review of supporting documentation.	O	Assistant Administrator for Administration and Resources Management	09/30/15		
2	11	Issue national guidance to the agency's GMOs. The guidance should clarify step-by-step processes needed to conduct transaction testing, and include provisions for tracing costs to source documents to ensure expended costs are allowable, allocable, reasonable, and aligned with the approved budget and project activities.	O	Assistant Administrator for Administration and Resources Management	09/30/15		
3	11	Follow up on undocumented costs identified in the OIG finding and require grant recipients to reimburse the agency for costs deemed unallowable based on insufficient and/or unacceptable source documentation.	O	Assistant Administrator for Administration and Resources Management	12/31/15	\$507.2	

¹ O = Recommendation is open with agreed-to corrective actions pending.
 C = Recommendation is closed with all agreed-to actions completed.
 U = Recommendation is unresolved with resolution efforts in progress.

Agency Response to Draft Report

MAY 7 2015

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA-FY14-0188, *Improved Oversight of EPA's Grant Monitoring Program Will Decrease the Risk of Improper Payments*, dated March 20, 2015

FROM: Karl Brooks, Deputy Assistant Administrator

TO: Arthur A. Elkins,
Office of the Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. We agree with the three recommendations and have developed corrective actions and estimated completion dates as described in the attachment.

The draft report also mentions a corrective action made in Office of Inspector General Report No. 13-P-0361, *EPA Needs to Improve STAR Grant Oversight* issued August 27, 2013. The draft report states that Office of Administration and Resources Management's Office of Grants and Debarment did not take the corrective action intended by the OIG. The recommendation in question called for OGD to "issue guidance to grant specialists to remind them that during transaction testing, they are required to trace costs to source documents and make a determination as to whether costs are related to the activities funded by the grant." The OGD issued the guidance to the OGD grants specialists administering STAR awards. In the OIG's view, the guidance should have been distributed to both OGD and Regional Grants Specialists.

The authority to award STAR grants is reserved for OGD award officials and the issues addressed in the STAR audit report dealt with inadequate STAR cost documentation. Based on these factors, the OGD disseminated guidance to OGD grants specialists administering STAR awards. We regret the misunderstanding and note that under the attached corrective action plan, the OGD will be distributing advanced monitoring guidance to all grant specialists in the fourth quarter of this fiscal year.

If you have any questions about this response, please contact me at (202) 564-4600 or have your staff contact Frederick Grier, Office of Grants and Debarment, at (202) 564-5059 or via email at Grier.Frederick@epa.gov.

Attachment

cc: Howard Corcoran
Denise Polk
Kysha Holliday
Frederick Grier
Janet Kasper
Madeline Mullen

No.	Recommendation	High-Level Intended Corrective Actions	Expected Completion by Quarter and FY
1	Implement a process to enhance quality-control reviews of AAM reports. The process should include review of supporting documentation.	1.1 – All GMOs (HQs and regional) will be required to implement quality control measures for Advanced Administrative Monitoring reviews (desk and onsite) conducted by EPA staff. This will include reviewing supporting documentation prior to finalizing and transmitting the AAM report to the recipient.	4 th Quarter FY 2015
		1.2 - OGD will develop and implement quality control procedures to ensure that all contractor-conducted AAM (onsite) reviews are properly conducted. This includes reviewing contractor work papers and source documentation provided during the course of the review prior to transmitting the AAM report to the recipient.	4 th Quarter FY 2015
2	Issue national guidance to the agency’s Grants Management Offices. The guidance should clarify step-by-step processes needed to conduct transaction testing, and include provisions for tracing costs to source documents to ensure expended costs are allowable, allocable, reasonable, and aligned with the approved budget and project activities.	2.1 – OGD is in the process of developing a comprehensive Standard Operating Procedure for Administrative Advanced Monitoring that will address each of the areas identified by the OIG. Once the SOP is finalized, all GMOs and EPA grants staff will be required to follow it when conducting AAM reviews.	4 th Quarter FY 2015
3	Follow up on undocumented costs identified in the OIG finding and require grant recipients to reimburse the agency for costs deemed unallowable based on insufficient / unacceptable source documentation.	3.1 – GMOs will follow up with each of the recipients directly to request additional documentation to support questioned costs.	1 st Quarter FY 2016
		3.2 – GMOs will review the documentation and require reimbursement for unallowable costs in accordance with applicable agency procedures.	1 st Quarter FY 2016

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