



# 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](http://www.epa.gov/oig).

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