



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Financial Management

EPA Complied With Improper Payment Legislation, but Stronger Internal Controls Are Needed

Report No. 16-P-0167

May 10, 2016



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Abbreviations

AFR	Agency Financial Report
CMAP	Contracts Management Assessments Program
EPA	U.S. Environmental Protection Agency
FMR	Financial Monitoring Review
GAO	U.S. Government Accountability Office
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
OCFO	Office of the Chief Financial Officer
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
RTP-FC	Research Triangle Park Finance Center, Financial Services Branch

Cover image: OIG-created image from U.S. EPA photos.

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At a Glance

Why We Did This Review

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), as modified by the Improper Payments Elimination and Recovery Improvement Act of 2012, requires that each fiscal year the Inspector General of each agency determine whether the agency is in compliance with the law. In addition, Office of Management and Budget Memorandum M-15-02 says that the Office of Inspector General (OIG) may evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing improper payments. Our audit focused on the U.S. Environmental Protection Agency's (EPA's) compliance with these requirements.

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

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

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Listing of [OIG reports](#).

EPA Complied With Improper Payment Legislation, but Stronger Internal Controls Are Needed

What We Found

The EPA complied with improper payment legislation when reporting improper payments in fiscal year 2015. However, while the EPA initially published its Agency Financial Report on November 16, 2015, the agency found errors in the report and did not publish the revised, final version until January 2016. We also identified errors in the Improper Payments Compliance section of the Agency Financial Report, resulting in overstated improper payments for the Hurricane Sandy and grants payment streams, and an under-reporting of total dollar outlays for the commodities payment stream.

Improvement to processes for preventing and detecting improper payments will result in better use of funds for environmental and supporting programs.

Further, we determined that the EPA limited the scope of the risk assessment for the contracts payment stream to the processing of invoices pursuant to appropriations law and the Prompt Payment Act, and to determining if the invoice was proper. As a result, the risk assessment did not take into consideration the programmatic risks associated with compliance regarding the terms and conditions of the contract, or contracting officer and contracting officer's representative invoice reviews. In addition, the risk assessments did not take into consideration OIG audits or internal reviews conducted by the EPA.

Recommendations and Planned Agency Corrective Actions

We recommend that the Chief Financial Officer determine the reasons for the delays and errors in the publication of the EPA's fiscal year 2015 Agency Financial Report, and identify and implement internal controls to prevent these errors and delays. We further recommend that the Chief Financial Officer amend the standard operating procedure for identifying and reporting improper payments for the commodities payment stream, and integrate the entire contracting process into the contracting payment process risk assessment. We recommend that the Assistant Administrator for Administration and Resources Management finalize the grants payment stream's draft procedure for improper payment reporting, including cost-effective internal controls to produce reliable reports. The agency concurred with all of the recommendations and provided corrective actions with estimated completion dates. All corrective actions are scheduled to be completed by November 2016. When implemented, the corrective actions should address the recommendations. The recommendations are considered open with agreed-to corrective actions pending.



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

THE INSPECTOR GENERAL

May 10, 2016

MEMORANDUM

SUBJECT: EPA Complied With Improper Payment Legislation,
but Stronger Internal Controls Are Needed
Report No. 16-P-0167

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: David Bloom, Deputy Chief Financial Officer
Office of the Chief Financial Officer

Donna Vizian 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. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

The offices responsible for the implementation of the audit recommendations include the Office of the Controller within the Office of the Chief Financial Officer, and the Office of Grants and Debarment within the Office of Administration and Resources Management.

Action Required

In responding to the draft report, the agency provided a corrective action plan for addressing the recommendations with 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.

This report will be available at www.epa.gov/oig.

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Chapter 1

Introduction

Purpose

The purpose of the audit was to report on the U.S. Environmental Protection Agency's (EPA's) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and to evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.

Background

Office of Management and Budget (OMB) Memorandum M-15-02 states that Inspectors General may evaluate (1) the accuracy and completeness of agency reporting, and (2) agency performance in reducing and recapturing improper payments. Also, Inspectors General are annually required to determine whether agencies are in compliance with IPERA. IPERA identifies six requirements to determine agency compliance.

IPERA requires agencies to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments, defined as gross annual improper payments exceeding the statutory threshold of both 1.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported, or \$100 million (regardless of the rate). For fiscal year (FY) 2015 reporting, the majority of the EPA's payment streams were determined to be at a low risk of significant improper payments. The agency's three risk-susceptible programs—the Clean Water State Revolving Fund, Drinking Water State Revolving Fund, and Hurricane Sandy—remain below statutory thresholds. However, the State Revolving Funds are deemed risk-susceptible by OMB (per the EPA FY 2015 Agency Financial Report (AFR)), and Hurricane Sandy is automatically considered risk-susceptible by statute (Public Law 113-2).

Responsible Offices

The Office of the Chief Financial Officer (OCFO) formulates and manages the EPA's annual budget and performance plan, coordinates the EPA's strategic planning efforts, develops the EPA's annual Performance and Accountability Report, and implements the Government Performance and Results Act. OCFO also provides financial services for the EPA and makes payments to EPA grant recipients, contractors and other vendors. The office provides policy, reports and oversight essential for the financial operations of the EPA. Within OCFO, the Office of the Controller has primary responsibility for these functions.

The Office of Grants and Debarment (OGD), within the Office of Administration and Resources Management, conducts advance monitoring reviews on recipients with active grants awards. OGD conducts transaction testing to identify improper payments, and the results obtained constitute a quantitative risk assessment in support of IPERA requirements. OGD works with OCFO's Las Vegas Finance Center to reconcile any improper payments listed in the Grantee Compliance and Recipient Activity database to the accounts receivable established by the Las Vegas Finance Center in the agency's financial management system.

Scope and Methodology

We conducted this audit from November 2015 to April 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The purpose of the audit was to report on the EPA's compliance with IPERA and evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments. To determine whether the EPA complied with IPERA, we reviewed the EPA's FY 2015 AFR and accompanying materials. We interviewed agency staff at the EPA headquarters for OCFO, the Office of Administration and Resources Management's OGD and Office of Acquisition Management, and the Office of Water. We also interviewed OCFO staff from the Las Vegas, Research Triangle Park and Cincinnati Finance Centers.

We gained an understanding of the processes, procedures and controls used for improper payment and recovery reporting across multiple payment streams—including State Revolving Funds, grants, commodities, contracts, payroll, travel, purchase cards and Hurricane Sandy. We selected judgmental samples of reported improper payments from the State Revolving Funds, Hurricane Sandy, grants, commodities and contracts payment streams, and traced them back to source documentation to test the accuracy of improper payment reporting in the EPA's FY 2015 Agency Financial Report. For the State Revolving Funds, we reviewed transaction testing worksheets to ensure they were completed in accordance with EPA policies. We reviewed all of the qualitative and quantitative risk assessments prepared by EPA for its payment streams. We took steps to confirm the accuracy of both the OGD and Las Vegas Finance Center's improper payment schedules to the EPA system-generated support data for the grants payment stream. For EPA payments streams that are considered to be susceptible to significant improper payments, we took steps to identify improper payments that were not reported by reviewing a sample of negative draws, Program Evaluation Reports, and transaction testing reports and worksheets.

We used information from several EPA Contracts Management Assessments Program—issued from November 21, 2012, through March 12, 2015—and Financial Monitoring Review reports—issued between October 29, 2014, and September 30, 2015. We also used data systems during our work, including the Grantee Compliance and Recipient Activity Database, Contract Payment System, Small Purchase Information Tracking System, and Compass Data Warehouse. We verified the information in the systems to source documentation, and concluded that the information provides a reasonable basis for our findings and conclusions.

Prior Audit Coverage

During this audit, we followed up on agency corrective actions from EPA Office of Inspector General (OIG) Report No. [15-P-0152](#), *EPA Complied with Improper Payment Legislation, But Opportunities for Improvement Exist*, issued May 1, 2015. We found that all corrective actions had been completed.

We also reviewed OIG Report No. [15-P-0215](#), *Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7*, issued July 20, 2015. We did so because the findings in the report identified risks in the EPA contracts payment stream and reported unallowable billings of \$82,322, which are improper payments. However, there were no recommendations related to this audit. Details on what we found regarding this prior report are in Chapter 4.

Chapter 2

EPA Complied With IPERA, but Final Publication of Agency Financial Report Delayed

The EPA complied with IPERA for FY 2015 reporting. The EPA published the FY 2015 AFR, including the Improper Payments Compliance section, on its website on November 16, 2015. However, shortly thereafter, the EPA determined that there were errors in the report, and the agency did not publish the revised, final AFR until January 19, 2016. IPERA established six conditions that must be met for agencies to be considered in compliance, including publishing the AFR by the established date. The agency cited the AFR being noncompliant with Section 508 of the Rehabilitation Act of 1973 as the primary reason for the delay, but OCFO did not provide reasons why the report was noncompliant until after the OIG draft report was issued. Reliance on the EPA's financial reports is enhanced when those reports are accurate and timely published.

IPERA and OMB Provide Guidance for Compliance and Publishing AFR

IPERA established the following six steps for agency compliance:

- Publish an AFR or Performance and Accountability Report for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website.
- Conduct a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S. Code (if required).
- Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).
- Publish, and meet, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or Performance and Accountability Report.

OMB’s Circular A-136, dated August 4, 2015, states agencies are required to submit the AFR to the OMB, U.S. Government Accountability Office (GAO), and Congress by November 15, or on the next business day if November 15 falls on a weekend or holiday. OMB Circular A-136 also states that:

... if on this day the report is not compliant with Section 508 of the Rehabilitation Act of 1973, as amended, the agency must post the Section 508-compliant version of the final report to its website no later than 15 calendar days.

EPA Was in Compliance With IPERA

The EPA complied with IPERA because it met all six conditions for establishing compliance, as shown in Table 1.

Table 1: EPA met the six requirements of IPERA

Requirement	Complied?	Description
Published an AFR or Performance and Accountability Report for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Yes	The EPA’s FY 2015 AFR was published on November 16, 2015, on the agency website. However, there were errors in the published report (see below).
Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S. Code (if required).	Yes	The EPA performed program-specific risk assessments for nine payment streams.
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Yes	The Clean Water State Revolving Fund, Drinking Water State Revolving Fund, and Hurricane Sandy programs are considered to be risk susceptible. The EPA reported improper payment estimates for these programs.
Published programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).	Not Required	The EPA did not exceed the statutory threshold of \$10 million and 1.5 percent of program outlays, or \$100 million for its risk-susceptible programs, and therefore a corrective action plan was not required.
Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable)	Yes	The EPA published and met the annual reduction targets for FY 2015. The actual improper payment rate for FY 2015 was less than the targeted rate for the EPA’s three risk-susceptible programs.
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or Performance and Accountability Report.	Yes	The EPA reported a gross improper payment rate of less than 10 percent for each payment stream.

Source: OIG analysis.

Publication of Final AFR Was Delayed and Errors Occurred

The EPA FY 2015 AFR, including the Improper Payments Compliance section, was published on the EPA website on November 16, 2015. However, shortly thereafter, the EPA determined that there were errors in the reporting, including missing information from the Improper Payments Compliance section. The EPA corrected the errors and later received OMB's concurrence on the updated AFR. The revised, final AFR with the corrections was published on January 19, 2016—2 months after it was originally posted.

In addition, four payment streams (Drinking Water State Revolving Fund, Hurricane Sandy, grants, and commodities) contained errors in the tables and figures in the Improper Payments Compliance section of the AFR. As a result of these errors, the amount of extrapolated improper payments for the Hurricane Sandy and grants payment streams were overstated. Specifically:

- The commodities payment stream understated total dollar outlays for FY 2015 in Figure D of the AFR. The EPA reported \$226,509,511 as total dollar outlays for FY 2015, but the correct amount was \$226,968,287, a difference of \$458,776.
- The grants payment stream reported \$2.79 million of “Overpay Recaptured Outside of Payment Recapture Audits” in Table 4 of the AFR. OGD staff mistakenly included \$106,150 of recovered payments that were already reported in Figure B of the AFR under the heading “Recovered Costs,” and the total thus should have been reported as \$2.68 million.
- Figure B of the AFR overstated the amount of improper payments for the grants payment stream by \$16,762 because the amount was included twice.
- When the AFR was first published, Table 6 of the Improper Payments Compliance section contained a value in the “Amount Outstanding (0 to 6 Months)” of \$10,000 for the Drinking Water State Revolving Fund payment stream. Our review of supporting documentation concluded the value for that field should have been \$0.00. OCFO staff agreed and made the correction when the revised AFR was published.
- Table 1 reported improper payments of \$400 for the Hurricane Sandy payment stream, while the EPA identified \$358 of improper payments through a review of supporting documentation provided by a cooperative agreement recipient. However, \$36 of this amount was the state share as a result of a 10 percent cost share requirement. Therefore, the federal share was \$323. After rounding, the EPA should have reported \$300 in Table 1, rather than \$400.

- Figure G stated that only nine contract payments were sampled pursuant to Hurricane Sandy expenditures. However, in the narrative portion of the AFR, the EPA stated it sampled all 25 contracts payments due to the small number of actual transactions. We determined that 100 percent of the contracts payments were sampled.

OCFO staff provided a corrected version of the Improper Payments Compliance section of the AFR on December 8, but indicated it could not publish a final AFR because it was not compliant with Section 508 of the Rehabilitation Act of 1973. After issuing our draft report, EPA indicated the agency was not able to obtain the necessary AFR materials in a Section 508-compliant format, requiring additional time to complete the 508 conversion process. In addition, the OCFO indicated that multiple versions of the AFR required correction. The errors in the tables and figures were due to human error and insufficient controls over the process to identify and correct the errors. The missing controls included, but may not be limited to, insufficient quality assurance and review, reconciling data and reports, and following established procedures. While the agency was unable to meet the established 15-day timeframe, it is implementing new procedures requiring that all AFR materials be Section 508-compliant at the time of submission to OCFO. Reliance on the EPA's financial reports is enhanced when those reports are accurate and timely published.

Recommendations

We recommend that the Chief Financial Officer:

1. Determine the reasons for the delays in publishing the AFR and implement internal controls to prevent future delays.
2. Implement quality assurance procedures to identify and correct errors in the Improper Payment Compliance section prior to publishing the AFR.

Agency Comments and OIG Evaluation

The EPA agreed with the recommendations. In response to Recommendation 1, the OCFO agreed to implement internal controls to prevent future delays by November 15, 2016. In response to Recommendation 2, the OCFO agreed to perform multiple levels of review to ensure figures published in the AFR match the supporting documentation, and will communicate the importance of stakeholders performing thorough quality assurance reviews prior to submission of improper payment data. The agency indicated these actions will be completed by November 30, 2016. When implemented, the corrective actions should address the recommendations.

Chapter 3

Accuracy and Reliability of EPA's Improper Payment Reporting Needs Improvement

The EPA's FY 2015 AFR reported some inaccurate information for two payment streams. Specifically:

- The EPA under-reported total dollar outlays by \$458,777, and the number of erroneous payments by one for the commodities payment stream.
- The EPA overstated improper payments by \$16,762 in Figure B, and \$106,150 in Table 4 for the grants payment stream. However, for the grants payment stream, we cannot confirm the exact amount overstated due to the errors identified in the reconciliation support schedules.

GAO's *Standards for Internal Control in the Federal Government* defines internal control as: "a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved." EPA policies and guidance require the agency to make and preserve records containing adequate and proper documentation of policies and procedures, and to accurately record and report improper payments under EPA assistance agreements. However, internal controls for both the EPA's Research Triangle Park Finance Center, Financial Services Branch (RTP-FC) and OGD were deficient. RTP-FC and OGD did not maintain adequate policies and procedures for improper payment reconciliation and reporting, which contributed to inaccurate reporting. Therefore, stakeholders (such as the public, Congress and other federal agencies) may not be able to rely on the accuracy of the information collected and reported by the EPA. Preventing and detecting improper payments will result in better use of funds for environmental and supporting programs.

GAO Internal Control Standards and EPA Policies Provide Guidance

GAO's *Standards for Internal Control in the Federal Government* (GAO-14-704G), issued September 2014, defines internal control as:

... a process effected by an entity's oversight body, management and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations—Effectiveness and efficiency of operations.
- Reporting—Reliability of reporting for internal and external use.
- Compliance—Compliance with applicable laws and regulations.

The EPA Records Management Manual requires the agency to:

... make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency and designed to furnish the information necessary to protect the legal and financial rights of the government and of persons directly affected by the agency's activities.

Records contain the information that documents how the EPA carries out its mission, and include information required to support the EPA's financial and other obligations and legal claims. All EPA staff generate and receive records and are legally required to maintain them. EPA records must be maintained in an appropriate manner, captured and organized to ensure timely search and retrieval for internal agency use as well as for responses to outside inquiries.

The EPA's RTP-FC Services Branch Accounting and Payment Section Standard Operating Procedure instructs the preparer on what data to collect and the data sources for improper payment reporting.

The EPA's National Policy, Training, and Compliance Division developed a draft procedure, *Procedures for Improper Payment Reporting*, that says:

- The National Policy, Training, and Compliance Division is responsible for generating an improper payments report for grants (other than the Office of Water State Revolving Fund programs, which are reported separately) to the OCFO by the end of June each year to report in the AFR.
- OGD is required to report on all (1) audits, (2) advanced monitoring reviews (desk and onsite), (3) administrative enforcements, and (4) assistance adjustment notices with unallowed costs that were closed and made final during the previous calendar year. That means that any appeals and requests for review on any of these four actions were complete, and a final decision issued for these various reports and audits.
- There should be a formal letter to the recipient from the agency that establishes the debt and requests payment of the unallowed amount. The Las Vegas Finance Center should be copied on that letter so that an accounts receivable is established in the agency financial system to track repayment of the debt.

The EPA's OGD policy notice PN 2013 G03 says that grants management officers are responsible for ensuring that audits, administrative reviews, and enforcement actions are entered into the Grantee Compliance & Recipient Activity Database.

EPA's FY 2015 AFR Reported Some Inaccurate Information

Errors for Commodities Payment Stream

For the commodities payment stream, we noted no exception in the AFR for the reported improper payments dollar amount or the error rate. However, the AFR and RTP-FC's support schedule understated total dollar outlays by \$458,777. Staff selected incorrect data from EPA system reports, and used accumulated totals from monthly reports that did not reflect prior monthly adjustments to populate the support schedule. A reconciliation of the year-end report to monthly reports was not performed, adjustments during the year were not tracked for reconciliation purposes, and management review did not catch inconsistencies in the support schedules. In addition, we noted the AFR and RTP-FC's support schedule understated the number of erroneous payments by one.

Errors for Grants Payment Stream

The EPA overstated improper payments by an estimated \$106,150 in Table 4 and \$16,762 in Figure B of the FY 2015 AFR for the grants payment stream. We cannot confirm the exact amount overstated, because OGD did not provide supporting documentation on the improper payment reconciliation between the Grantee Compliance & Recipient Activity Database and the Compass Data Warehouse financial system. OGD staff instructed grant specialists and grant management officers to make corrections to the Grantee Compliance & Recipient Activity Database during the reconciliation process, which prohibited a re-creation of the original report and the ability to track the adjustments. Without the ability to recreate the original report and track the adjustments, we could not determine the validity of the spreadsheet being used to identify the improper payments. The reconciliation is complicated by the number of adjustments made. Information, such as original unallowed cost debt reduced through the appeal process and original unallowed cost reduced in the final closeout letter, was not accurate in the Grantee Compliance & Recipient Activity Database or in accounts receivable in the Compass Data Warehouse financial system.

After discussing the issue with OGD and Las Vegas Finance Center staff, they reviewed the reconciliation and tried to document their actions so it could be tracked and verified. However, we identified additional errors in the amended reconciliation, including an error in the reconciliation between the original master spreadsheet and the amended reconciliation of \$575,705. Therefore we question the reliability of the OGD's improper payment reconciliation spreadsheets.

In some instances, grant management officers and grant specialists did not make timely updates to the Grantee Compliance & Recipient Activity Database, nor did they provide final decision letters to the Las Vegas Finance Center to record accounts receivables. This contributed to at least 29 adjustments to the data in the reconciliation.

Internal Controls Not Sufficient, and Staff Did Not Follow Procedures

Internal controls were not sufficient to identify and correct the human errors made during the process. During the commodities payment stream data collection and reporting process for improper payments, RTP-FC staff did not use the correct improper payment reporting data for the total dollar outlay from the Commodity Payment Statistics Report generated from the EPA Small Purchase Information Tracking system, as outlined in RTP-FC's standard operating procedure. This data is used to populate the Commodity Improper Payment Report (9/30/YYYY), which is used to report improper payments for the commodities payment stream in the Improper Payment Compliance section of the EPA AFR. Errors made in this data collection result in mistakes in the reporting of improper payments, and management review did not catch these inconsistencies in the improper payment support schedules. Although the RTP-FC standard operating procedure does identify the data sources and application, it does not specifically identify the exact data that should be used to produce the Commodity Improper Payment Report, and that lack of specificity can cause reporting errors. Also, the RTP-FC standard operating procedure does not include a requirement to track monthly adjustments and reconcile the cumulative monthly reports with the year-end report.

In addition, OGD staff did not follow established improper payment reporting procedures for the grants payment stream and the draft procedures for improper payment reporting. They did not establish effective internal controls to track, verify and document adjustments and corrections made during the improper payment reconciliation process of OGD's Grants and Interagency Data Mart report for unallowed costs to the Compass Data Warehouse Accounts Receivable Inquiry. Also, OGD staff did not comply with the EPA's Records Management Manual during the improper payment reconciliation process. Specifically OGD staff did not create, maintain and retain a detailed reconciliation report, which could confirm, verify and/or re-create processes and procedures undertaken to detect, identify and report all improper payments for the grants payment stream.

Recommendations

We recommend that the Chief Financial Officer:

3. Amend the current standard operating procedure to include the requirement to populate the Commodity Improper Payment Report (9/30/YYYY) spreadsheet from the year-end Commodity Payment Statistics report with the correct fields from which data should be drawn.
4. Implement management oversight of the process and review of the supporting Commodity Improper Payment Report (9/30/YYYY) spreadsheet.

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

5. Finalize the grants payment stream's interim procedure for improper payment reporting, including cost-effective internal controls to produce reliable reports with verifiable information.
6. Develop and implement procedures for maintaining, detecting, reporting and securing records associated with production of grants payment stream annual improper payment reports, in accordance with the EPA's Records Management Manual.

Agency Comments and OIG Evaluation

The EPA agreed with the recommendations. In response to Recommendation 3, the OCFO agreed to amend the standard operating procedures for commodities by September 30, 2016.

In response to Recommendation 4, the OCFO agreed to ensure multiple levels of review will be conducted on the improper payments report, as well as the payments identified as improper, and agreed that this requirement will be documented in the OCFO's office procedures. The agency indicated this action will be completed by October 30, 2016.

In response to Recommendation 5, OGD agreed to finalize its *Standard Operating Procedure for Reporting Improper Payments* to include the methodology and data used to reconcile OGD's Grants and Interagency Data Mart Report for Unallowed Costs to the Compass Data Warehouse Accounts Receivable Inquiry by October 15, 2016.

In response to Recommendation 6, the Office of Administration and Resources Management agreed to develop and implement procedures for maintaining, detecting, reporting and securing records associated with production of grants payment stream annual improper payment reports, in accordance with the EPA's Records Management Policy by October 15, 2016.

When implemented, the corrective actions should address the recommendations.

Chapter 4

Contract Risk Assessments Can Be Improved

The EPA limited the scope of the contracts payment stream risk assessment to only RTP-FC processing of invoices, pursuant to appropriations law and the Prompt Payment Act, and to determining if the invoice was proper. IPERA Section 2(a) requires the head of each agency to periodically review all programs and activities that the relevant agency head administers, and identify all programs and activities that may be susceptible to significant improper payments. RTP-FC staff did not take into consideration either programmatic risks or audit reports that identified internal control deficiencies. By limiting the scope of the risk assessment, the EPA is not adequately assessing the risk associated with compliance with the terms and conditions of contracts.

EPA Limited Scope of Contracts Payment Stream Risk Assessment

IPERA Section 2(a) requires the head of each agency to periodically review all programs and activities that the relevant agency head administers and identify all programs and activities that may be susceptible to significant improper payments. However, the EPA limited the scope of the contracts payment stream risk assessment to only RTP-FC's processing of invoices pursuant to appropriations law and the Prompt Payment Act, and to determining if the invoice was proper, which resulted in assessing a low-risk score of 20. In particular, the risk assessment did not take into consideration:

- OIG reports, including a report that identified programmatic risks associated with compliance regarding the terms and conditions of the contract, or contracting officer and contracting officer's representative's invoice reviews.
- Contracts Management Assessments Program (CMAP) reports, and Financial Monitoring Review (FMR) reports, to determine whether there were findings regarding possible risks, or internal control deficiencies that could impact the ability to detect, determine, report and mitigate improper payments.

OIG Report Not Considered

OIG Report No. [15-P-0215](#), *Internal Controls Needed to Control Costs of Superfund Technical Assessment & Response Team Contracts, as Exemplified in Region 7*, issued July 20, 2015, reported that lack of oversight led to unallowable billings of \$82,322 and noncompliance with contract terms and conditions. In addition, the report noted that Region 7 was not adequately monitoring the contractor for compliance with the contract requirements. In particular, the region

did not sufficiently review contractor invoices, and the region’s annual invoice reviews were lacking. Further contractor billings included double-billed items and other unallowable items.

CMAP and FMR Reports Not Considered

There were 12 CMAP reports issued from November 21, 2012, through March 12, 2015. Our review of the CMAP reports identified risks and/or internal control deficiencies that could affect the ability to detect, determine, report and mitigate improper payments in the contracts payment stream. The 12 CMAP reports found:

- 64 of 117 contracts, or 55 percent, did not contain evidence of annual invoice reviews.
- 47 of 109 files, or 43 percent, where modifications were issued did not include adequate documentation to support the modification.

Table 2 provides examples of issues identified during individual CMAP reviews.

Table 2: CMAP report findings

Steps not performed by contracting officer	Frequency of problem
21 of 21 files did not contain appropriate documentation to support renewal of option periods.	100%
22 of 90 transactions did not have any documentation that an independent third-party reviewer had verified receipt of the supplies or services.	24%
14 of 90 purchase card transactions did not have the required prior approvals.	16%
11 of 30 files indicated no peer reviews were performed on Remedial Action Contracts, associated task orders and modifications.	37%

Source: OIG analysis of EPA data.

There were 14 FMR reports issued between October 29, 2014, and September 30, 2015. Our review of the FMR reports noted internal control deficiencies that could effect or possibly lead to the inability to detect, determine, report and mitigate improper payments in the contracts payment stream.

- One FMR reported noncompliance with subcontract consent clauses, resulting in two unauthorized subcontractors billing \$1,242,103 under this contract.
- One FMR reported subcontractors billing costs in excess of subcontract values and the inability to determine the allowability, allocability and reasonableness of \$138,744.
- One FMR reported an indirect cost rate variance that was determined to be a potential underbilling of indirect costs totaling \$20,602.
- One FMR reported overbilling of program management support costs by \$7,099.

- One FMR reported the omission of the payment for overtime premium clause, but \$1,890 of overtime premium was billed under the contract.
- One FMR reported a lack of updated accounting bulletins, and noted that such untimely updates/revisions could result in inappropriate costs being billed under government contracts and subcontracts.

EPA Did Not Consider Risk at Programmatic Level

RTP-FC's Branch Chief confirmed that, when assessing risk, RTP-FC staff only assessed the risk associated with invoices reviewed by RTP-FC to determine the invoice was proper and in accordance with appropriations law and the Prompt Payment Act, and did not:

- Review CMAP or FMR reports, due to being unfamiliar with the reports.
- Take into consideration reported findings in OIG Report No. [15-P-0215](#), because RTC-FC said these are program-side issues, and they rely on the program side to inform them if the invoice should be paid or not.

The reason for not assessing or reviewing CMAPs, FMRs and OIG reports is that the internal control deficiencies reported in the reports fall under the purview of the EPA's Office of Acquisition Management, within the Office of Administration and Resources Management, rather than RTP-FC. OCFO staff said that when developing the initial improper payments risk assessment for contracts, the focus was in capturing the risks associated with the payment process and, in hindsight, that focus may have been too narrow.

Limited Scope Reduces Adequacy of Risk Assessments

Limiting the scope of the risk assessment to only RTP-FC's processing of invoices pursuant to appropriations law and the Prompt Payment Act resulted in the EPA not adequately assessing the risk and internal control deficiencies associated with compliance with the terms and conditions of contracts. Further, the EPA was not taking into consideration the missing contracting officer invoice reviews. This hinders the EPA's ability to detect, determine, report and mitigate improper payments in the contracts payment stream.

Recommendation

We recommend that the Chief Financial Officer:

7. Integrate into the contracting payment process risk assessment the entire contracting process, including, but not limited to:
 - a. The duties of the contracting officer and the contracting officer's representative.
 - b. The activities conducted by RTP-FC processing payments, and the results of OIG reports.

Agency Comments and OIG Evaluation

The EPA agreed with the recommendation. In response to Recommendation 7, the OCFO agreed to, by September 30, 2016, integrate into the contracting risk assessment areas applicable to the financial aspects of the contracting process: (a) contracting officer and contracting officer's representative reviews and approval of contractor invoices; (b) results of external (OIG, GAO) and internal (CMAP, FMR) oversight/reports; (c) reviews of acquisition payment-related internal controls; and (d) activities conducted by RTP-FC payment processing. When implemented, the corrective actions should address the recommendation.

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	7	Determine the reasons for the delays in publishing the AFR and implement internal controls to prevent future delays.	O	Chief Financial Officer	11/15/16		
2	7	Implement quality assurance procedures to identify and correct errors in the Improper Payment Compliance section prior to publishing the AFR.	O	Chief Financial Officer	11/30/16		
3	11	Amend the current standard operating procedure to include the requirement to populate the Commodity Improper Payment Report (9/30/YYYY) spreadsheet from the year-end Commodity Payment Statistics report with the correct fields from which data should be drawn.	O	Chief Financial Officer	9/30/16		
4	11	Implement management oversight of the process and review of the supporting Commodity Improper Payment Report (9/30/YYYY) spreadsheet.	O	Chief Financial Officer	10/30/16		
5	12	Finalize the grants payment stream's interim procedure for improper payment reporting, including cost-effective internal controls to produce reliable reports with verifiable information.	O	Assistant Administrator for Administration and Resources Management	10/15/16		
6	12	Develop and implement procedures for maintaining, detecting, reporting and securing records associated with production of grants payment stream annual improper payment reports, in accordance with the EPA's Records Management Manual.	O	Assistant Administrator for Administration and Resources Management	10/15/16		
7	16	Integrate into the contracting payment process risk assessment the entire contracting process, including, but not limited to: <ul style="list-style-type: none"> a. The duties of the contracting officer and the contracting officer's representative. b. The activities conducted by RTP-FC processing payments, and the results of OIG reports. 	O	Chief Financial Officer	9/30/16		

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

(Received April 29, 2016)

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report No. OA-FY16-0049, “EPA Complied With Improper Payment Legislation, But Stronger Internal Controls are Needed,” dated April 18, 2016

FROM: David A. Bloom
Deputy Chief Financial Officer

TO: Michael Petscavage
Director of Contracts and Assistance Agreement Audits

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 agency’s overall position. We have provided high-level intended corrective actions and estimated completion dates.

AGENCY’S OVERALL POSITION

The agency concurs with all of the recommendations in the draft audit report.

AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion
1	The Chief Financial Officer investigate the reasons for the delays in publishing the AFR and implement internal controls to prevent future delays.	OCFO has identified the reasons for the delay in publishing a Section 508-compliant version of the FY 2015 AFR and will implement internal controls to prevent future delays.	11/15/2016
2	The CFO implement quality assurance procedures to identify and correct errors in the Improper Payment Compliance section prior to publishing the AFR.	OCFO will perform multiple levels of review to ensure figures published in the AFR match the supporting documentation. OCFO will also communicate the importance of stakeholders performing thorough quality assurance reviews prior to the	11/30/2016

		submission of improper payment data. These requirements will be documented in OCFO's improper payments reporting guidance.	
3	Amend the current standard operating procedure to include the requirement to populate the Commodity Improper Payment Report (9/30/YYYY) spreadsheet from the year-end Commodity Payment Statistics report with the correct fields from which data should be drawn.	OCFO will amend the standard operating procedure for commodities and include the recommended item.	9/30/2016
4	Implement management oversight of the process and review of the supporting Commodity Improper Payment Report (9/30/YYYY) spreadsheet.	Multiple levels of review will be conducted on the improper payments report as well as the payments identified as improper. At a minimum, the reviews will include Branch Chief and Finance Center Director review and approval. This requirement will be documented in OCFO's office procedures.	10/30/2016
5	The Office of Administration and Resources Management finalize the grants payment stream's interim procedure for improper payment reporting, including cost effective internal controls to produce reliable reports, with verifiable information. The procedure should include the methodology and data used to reconcile OGD's Grants and Interagency Data Mart report for unallowed costs to the Compass Data Warehouse Accounts Receivable Inquiry.	In order to strengthen its internal controls to ensure OGD produces more reliable reports with verifiable information, OGD will finalize its " <i>Standard Operating Procedure for Reporting Improper Payments</i> " to include the methodology and data used to reconcile OGD's Grants and Interagency Data Mart Report for Unallowed Costs to the Compass Data Warehouse Accounts Receivable Inquiry.	10/15/2016
6	OARM develop and implement procedures for maintaining, detecting, reporting and securing records associated with production of grants payment stream annual improper payment reports, in accordance with the EPA's Records Management Policy.	OARM will develop and implement procedures for maintaining, detecting, reporting and securing records associated with production of grants payment stream annual improper payment reports, in accordance with the EPA's Records Management Policy.	10/15/2016

7	<p>The CFO integrate into the contracting payment risk assessment the entire contracting process, including, but not limited to:</p> <p>a. The duties of the contracting officer and the contracting officer's representative.</p> <p>b. The activities conducted by RTP-FC processing payments, and OIG reports.</p>	<p>OCFO will integrate into the contracting payment risk assessment areas applicable to the financial aspects of the contracting process. These include, but are not limited to:</p> <p>(a) CO and COR reviews and approvals of contractor invoices;</p> <p>(b) Results of external (OIG, GAO) and internal (CMAP, FMR) oversight reviews/reports;</p> <p>(c) Reviews of acquisition payment-related internal controls; and</p> <p>(d) Activities conducted by RTP-FC payment processing.</p>	9/30/2016
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CONTACT INFORMATION

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