



# OFFICE OF INSPECTOR GENERAL U.S. ENVIRONMENTAL PROTECTION AGENCY

CUSTOMER SERVICE ★ INTEGRITY ★ ACCOUNTABILITY

*Compliance with the law  
Operating efficiently and effectively*

## EPA Has Not Performed Agencywide Risk Assessments, Increasing the Risk of Fraud, Waste, Abuse, and Mismanagement

Report No. 22-E-0011

December 15, 2021

### Enterprise Risk Management Framework Model



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**Abbreviations:**

EPA	U.S. Environmental Protection Agency
ERM	Enterprise Risk Management
FMFIA	Federal Managers' Financial Integrity Act
GPRA	Government Performance and Results Act
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
U.S.C.	United States Code

**Key Definitions:**

Enterprise Risk Management	According to OMB Circular A-123, "ERM as a discipline deals with identifying, assessing, and managing risks. Through adequate risk management, agencies can concentrate efforts towards key points of failure and reduce or eliminate the potential for disruptive events."
Internal Control	The Government Accountability Office's <i>Standards for Internal Control in the Federal Government</i> states, "Internal control is a process affected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved."

**Cover Image:** An enterprise risk-management model covers the entire process of managing risk, from initial design to evaluation and monitoring of the effectiveness of an agency's systems to manage such risks. (EPA OIG image)

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# Office of Inspector General U.S. Environmental Protection Agency **At a Glance**

22-E-0011  
December 15, 2021

## Why We Did This Evaluation

We conducted this evaluation to determine whether the U.S. Environmental Protection Agency's Office of the Chief Financial Officer is conducting agencywide entity-level risk assessments and implementing internal controls for annual and supplemental appropriations that comply with federal and Agency requirements.

Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, dated July 2016, requires federal agencies to integrate internal control activities under the umbrella of an enterprise risk-management program through a risk-assessment process. The U.S. Government Accountability Office's GAO-14-704G, *Standards for Internal Control in the Federal Government*, dated September 2014, provides the overall framework for establishing and maintaining an effective internal control system.

### **This evaluation supports EPA mission-related efforts:**

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

### **This evaluation addresses a top EPA [management challenge](#):**

- *Managing infrastructure funding and business operations.*

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[List of OIG reports.](#)

## ***EPA Has Not Performed Agencywide Risk Assessments, Increasing the Risk of Fraud, Waste, Abuse, and Mismanagement***

### **What We Found**

The Agency's Office of the Chief Financial Officer has been delegated the responsibility for implementing Office of Management and Budget Circular A-123. However, the OCFO has not performed agencywide entity-level risk assessments over the EPA's annual and supplemental appropriations. Specifically, the OCFO has not developed or implemented an agencywide entity-level risk-assessment process—in which executive officials are fully engaged in entity-level risk activities—to identify high-priority risks that cut across individual Agency programs. Such a process would ensure that the resources received through annual and supplemental appropriations are strategically targeted.

**The OCFO cannot provide reasonable assurance that crosscutting risks are identified and mitigated and that Agency resources are directed to the most critical strategic needs.**

The OCFO has not updated its financial-management processes, policies, and procedures to identify and address risks at the agencywide entity level. Rather, the Agency continues to operate under an outdated division-level risk-assessment process. As a result, the OCFO cannot provide the direction necessary for its own office, let alone management and staff across the Agency, to perform enterprise risk-management responsibilities, including agencywide entity-level risk assessments for annual and supplemental appropriations.

### **Recommendations and Planned Agency Corrective Actions**

We modified our draft recommendations based on additional information that the OCFO provided to us after reviewing our draft report. Our final report contains two recommendations to the chief financial officer to ensure that the Agency's senior leaders are aware of their responsibilities for implementing an enterprise risk-management process that complies with Office of Management and Budget requirements and that these responsibilities are reflected in the EPA's policies.

Because the OCFO did not include estimated milestone dates with its corrective action plan for Recommendation 1, this recommendation is unresolved. In response to Recommendation 2, the Agency agreed to update its current policies and procedures by December 31, 2021. Recommendation 2 is resolved with corrective actions pending.



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

THE INSPECTOR GENERAL

December 15, 2021

**MEMORANDUM**

**SUBJECT:** EPA Has Not Performed Agencywide Risk Assessments, Increasing the Risk of Fraud, Waste, Abuse, and Mismanagement  
Report No. 22-E-0011

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

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

**TO:** Faisal Amin, Chief Financial Officer

This is our report on the subject evaluation conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this evaluation was [OA-FY21-0003](#). This report contains findings that describe the problems the OIG has identified and the corrective action the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer has the primary responsibility for the issues discussed in this report.

In accordance with EPA Manual 2750, your office provided a written response to the findings and the OIG recommendations. Your office provided acceptable corrective actions for Recommendation 2, which is resolved.

**Action Required**

Recommendation 1 is unresolved. The resolution process, as described in the EPA's Audit Management Procedures, begins immediately with the issuance of this report. Furthermore, we request a written response to the final report within 60 days of this memorandum. Your response will be posted on the OIG's website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at [www.epa.gov/oig](http://www.epa.gov/oig).

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## Purpose

The Office of Inspector General [initiated](#) this evaluation to determine whether the U.S. Environmental Protection Agency's Office of the Chief Financial Officer, or OCFO, is conducting agencywide entity-level risk assessments and implementing internal controls for annual and supplemental appropriations that comply with federal and Agency requirements.

### Top Management Challenge Addressed

This evaluation addresses the following top management challenge for the Agency, as identified in OIG Report No. [22-N-0004](#), *EPA's Fiscal Year 2022 Top Management Challenges*, issued November 12, 2021:

- Managing infrastructure funding and business operations.

## Background

Enterprise risk management, or ERM, and internal control are components of a governance framework. According to Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*,<sup>1</sup> "ERM as a discipline deals with identifying, assessing, and managing risks. Through adequate risk management, agencies can concentrate efforts towards key points of failure and reduce or eliminate the potential for disruptive events." According to the U.S. Government Accountability Office's GAO-14-704G, *Standards for Internal Control in the Federal Government*, known as the Green Book, "Internal control is 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."

An entity-level risk assessment considers potential overarching or pervasive crosscutting effects on an agency and results in agencywide and crosscutting risk identification. The purpose of an agencywide risk assessment is to determine the magnitude of risks, both individually and collectively, to focus senior management's attention on the most important threats and opportunities and to lay the groundwork for risk response, which is how an agency's management will respond to identified risks. The risk-assessment element of ERM measures and prioritizes risks so that risk levels are managed within defined tolerance thresholds—that is, the amount of risk that the Agency is willing to accept—without being overcontrolled or forgoing desirable opportunities.

In 2016, the OMB updated OMB Circular A-123 to require agencies to implement an ERM strategy so that they will have:

[A]ppropriate risk management processes and systems to identify challenges early, to bring them to the attention of Agency leadership, and to develop solutions ... to ensure Federal managers are effectively managing risks an Agency faces toward achieving its strategic objectives and arising from its activities and operations.

The circular requires agencies to implement an ERM capability that is coordinated with the strategic planning and review process that the GPRA Modernization Act of 2010 established (GPRA stands for

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<sup>1</sup> OMB Circular A-123 was revised on July 15, 2016, through OMB Memorandum M-16-17, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*. Throughout our report, references to OMB Circular A-123 will relate to this version, unless otherwise specified.

Government Performance and Results Act); the internal control processes that the Federal Managers' Financial Integrity Act of 1982, or FMFIA, requires; and the Green Book.

ERM expands upon an agency's established strategic planning and reporting processes and internal control systems by providing an enterprisewide, strategically aligned portfolio view of organizational challenges. This view provides improved insight about how to more effectively prioritize and manage risks to mission delivery (Table 1).

**Table 1: Comparison between traditional risk management and ERM**

Traditional risk management		ERM
Risk management (project or program)	Internal controls	
Coordinated activities to direct and control an organization regarding risk.	A process affected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of the entity will be achieved.	An effective agencywide approach to addressing the full spectrum of the organization's significant risks by considering the combined array of risks as an interrelated portfolio, rather than addressing risks only within programs or silos.

Source: Excerpts from *Playbook: Enterprise Risk Management for the U.S. Federal Government*, issued by the U.S. Chief Financial Officers Council and the Performance Improvement Council. (EPA OIG table)

The EPA's *FY 2018–FY 2022 Strategic Plan* describes how the Agency works toward its mission to protect human health and the environment and provides the measures used to evaluate its success. In this plan, the EPA identifies three overarching strategic goals to achieve its mission: (1) a cleaner, healthier environment; (2) more effective partnerships; and (3) greater certainty, compliance, and effectiveness. By implementing ERM, the EPA can effectively achieve results that support its mission and strategic goals.

## Levels of Organizational Structure

The Green Book identifies the four levels of a federal agency that are responsible for internal control implementation. The OCFO and the Office of Mission Support established language that bridges the Agency's structural hierarchy and the Green Book's levels of organizational structure (Table 2).

**Table 2: EPA-defined levels of organizational structure**

Levels of organizational structure	
Entity	Office of the Administrator or a national program office that has been delegated executive-level duties, such as OCFO's delegation to implement OMB Circular A-123 for the administrator. Agencywide controls that influence the entire organization, such as budget and human resources.
Division	National program office, such as the Office of Land and Emergency Management. An organization within the Agency that has national policy oversight responsibilities that are focused on a particular mission, such as air, water, land, and enforcement.
Operating unit	Subprogram within national program office or regional office, such as the Office of Land and Emergency Management's Office of Brownfields and Land Revitalization. An organization within the division that has the overall responsibility for managing a program and for implementing national policy.
Function	Service program or local office. Activity performed by a service program or local office, such as local facilities' management, purchase cards, grant and contract management, and records management.

Source: OIG summary of Green Book and EPA organizational information. (EPA OIG table)

## OMB Guidance Integrates ERM and Budget Requirements

Together, OMB Circulars A-11 and A-123 comprise the requirements for the ERM policy framework for the federal government. OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, incorporates OMB Circular A-123 ERM requirements into federal agency appropriations processes. OMB Circular A-11 provides all agencies with guidance for the preparation of annual and supplemental budgets, as well as with instructions on budget execution. Section 200 of OMB Circular A-11 describes the relationship between key parts of the ERM framework in OMB Circular A-123 and its integration with the federal performance framework established by the GPRA Modernization Act of 2010, including the consideration of enterprise risks during the development of agency strategic plans and strategies to mitigate risks as part of annual strategic review assessments.

## Requirements for Risk Profile

OMB Circular A-123, section II, “Establishing Enterprise Risk Management in Management Practices,” requires each federal agency to maintain a risk profile. A risk profile is a prioritized inventory of the agency’s most significant risks identified and assessed through the risk-assessment process. The risk profile must consider all risks from a portfolio (crosscutting and interrelationship) perspective. It must be approved by the agency’s ERM governance.

### Risk Profile

“A portfolio view of risk provides insight into all areas of organizational exposure to risk (such as reputational, programmatic performance, financial, information technology, acquisitions, human capital, etc.), thus increasing an Agency’s chances of experiencing fewer unanticipated outcomes and executing a better assessment of risk associated with changes in the environment.”

—OMB Circular A-123

## Responsible Offices

The OCFO is responsible for the issues discussed in this report. Specifically, *EPA 1200 Delegations Manual*, Chapter 1-16, “Agency Chief Financial Officer/Accounting, Budgeting, and Other Financial Management Activities,” last updated in April 2020, delegates authority for financial management and integrity activities for program and OCFO operations. It details a variety of accounting, budgeting, and financial-reporting duties delegated to the chief financial officer, who is the head of the OCFO. The delegation identifies the duties of the chief financial officer, such as establishing, reviewing, and enforcing internal control policies. According to the EPA’s controller, although OMB Circular A-123 is not specifically identified in the delegation, the implementation of OMB guidance falls under the OCFO’s internal control responsibilities. Within the OCFO, the Office of the Controller is responsible for:

- Interpreting fiscal legislation.
- Leading and managing compliance with OMB Circular A-123.
- Documenting program offices’ internal controls.

## Scope and Methodology

We conducted this evaluation from September 2020 to August 2021 in accordance with the *Quality Standards for Inspection and Evaluation*, which was published in January 2012 by the Council of the Inspectors General on Integrity and Efficiency. These standards require that we perform the evaluation to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings,

conclusions, and recommendations based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations.

To address our objective, we:

- Identified OMB Circular A-123, FMFIA, and Green Book criteria.
- Assessed OCFO actions and guidance related to annual and supplemental appropriations, risk assessment, and mitigation of internal controls.
- Compared the relevant criteria to the Agency’s policies, procedures, and documentation to determine compliance with federal requirements.
- Reviewed Agency documentation to assess ERM compliance and effectiveness.
- Conducted interviews with OCFO personnel.
- Obtained and reviewed supporting ERM documentation, directives, policies, and procedures to identify and verify key ERM processes that management had in place.

This report is based on the evidence collected and verified from the OCFO’s management. We assessed this evidence to determine whether the Agency’s actions were consistent with the:

- FMFIA requirement to establish an internal control system that provides reasonable assurance of achieving internal control objectives.
- OMB Circular A-123 requirement to integrate and coordinate risk management with other internal control-related activities.
- Green Book framework to establish and maintain an effective internal control system.
- Resource Management Directives System Policy Manual 2520 requirement to manage funds effectively and efficiently while following applicable rules, statutes, and regulations.
- 44 U.S.C. chapter 31, “Records Management by Federal Agencies,” requirement to make and maintain accurate and proper documentation of activities, decisions, policies, and procedures.
- EPA Records Schedule 1006, *Administrative Management*, requirement to retain administrative management records for six years.

Appendix A details the interdependency of the federal internal control requirements.

## Prior Reports

From 2017 through 2021, the OIG issued eight reports notifying the Agency of the lack of risk assessments at both the program and entity level (Appendix B). Two of these reports specifically identified Agency noncompliance with risk-assessment requirements in OMB Circular A-123:

- Report No. [21-E-0128](#), *EPA Did Not Conduct Agencywide Risk Assessment of CARES Act Appropriations, Increasing Risk of Fraud, Waste, Abuse, and Mismanagement*, issued May 4, 2021. Despite OMB Circular A-123 and Green Book requirements, the OCFO did not conduct an

agencywide risk assessment of funding from the Coronavirus Aid, Relief, and Economic Security Act to identify risks that could impact the success of the Act's objectives. We also found that related Agency guidance needed to be updated to reflect the 2016 OMB Circular A-123 ERM requirements. The OIG made two recommendations to the OCFO. The OCFO agreed to update its guidance, as well as to perform and document its risk assessment for the Act's supplemental appropriations. The OCFO certified that all corrective actions were completed as of October 1, 2021.

- Report No. [20-P-0170](#), *EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs*, issued May 18, 2020. The OIG found that the Agency needs to conduct risk assessments when designing and implementing programs in accordance with the Green Book and OMB Circular A-123. The OIG made one recommendation, with which the Agency agreed. The OCFO certified that it completed the corrective actions for this recommendation on August 13, 2021.

## Results

### *Agencywide Entity-Level Risk Assessments Not Performed*

OMB Circular A-123, as revised in 2016, requires that federal agencies conduct agencywide entity-level risk assessments. OMB Circular A-11 incorporates OMB Circular A-123 ERM requirements into federal agency appropriations processes. As such, ERM risk assessments aid agencies in the preparation of annual and supplemental budgets and oversight of resulting appropriations.

However, the EPA has not performed these entity-level risk assessments. Specifically, the OCFO has not developed or implemented an agencywide entity-level risk-assessment process—in which executive officials are fully engaged in entity-level risk activities, as outlined previously in Table 2—to identify high-priority, crosscutting risks. Such a process would ensure that the resources received from annual and supplemental funding are strategically targeted.

This occurred because the OCFO has not updated its financial-management processes, policies, and procedures to identify and address risks at the agencywide level as part of the ERM process. The Agency continues to operate under an outdated, stovepipe-type risk-management process, in which risks are assessed at the division level without considering whether the identified division-level risks could impact agencywide operations. Without an annual agencywide entity-level assessment, the OCFO cannot provide reasonable assurance that it identifies and mitigates crosscutting risks and that it directs Agency resources to the most critical strategic issues.

### *EPA Policies and Procedures Related to OMB Circular-123 Lack Agencywide Entity-Level Requirements*

The OCFO's policies and procedures related to OMB Circular A-123, based on its 2004 revisions, incorporate the provisions of ERM for annual and supplemental appropriations at the division level. However, these policies and procedures do not incorporate an agencywide entity-level approach per the 2016 version of OMB Circular A-123, as shown in Table 3.

**Table 3: ERM deficiencies in key Agency guidance**

Title	Effective date	Key requirements	ERM deficiency examples
Resource Management Directives System Policy Manual 2520, <i>Administrative Control of Appropriated and Other Funds</i>	December 2015	Provides guidance to Agency managers on using a variety of tools to achieve desired program results. Intended to implement OMB Circular A-123 and FMFIA.	Describes an OMB Circular A-123 process that reflects the traditional risk-management process and does not incorporate an enterprisewide approach.
EPA Order 1000.24 Change 2, <i>Management's Responsibility for Internal Controls</i> , July 2008	July 2008	Identifies management's responsibility for internal control.	Is outdated and does not implement the 2016 revision of OMB Circular A-123.
EPA Delegation 1-16, <i>Agency CFO-Accounting, Budgeting, and Other Financial Management Activities</i>	2020 Update	Delegates authority for financial management and integrity activities for programs and operations of the Agency to the chief financial officer, including establishing, reviewing, and enforcing internal control policies.	Does not specifically identify OMB Circular A-123 and does not include what responsibilities senior leadership will maintain to fully implement ERM, which would include the entity-level risk-assessment process.

Source: OIG analysis of Agency policies and procedures. (EPA OIG table)

OCFO representatives informed us that the OCFO does not have an agencywide risk profile or similar document and does not conduct risk assessments for its annual or supplemental appropriations. Rather, as documented in its policies and procedures, the OCFO assesses programmatic risk at the division level and has a corresponding risk-response process. The EPA ranks these programmatic risks to develop a risk profile coordinated with annual strategic reviews at the division level. The OCFO aggregates information collected from the program offices, but it does not analyze risk at the agencywide entity level to determine whether agencywide and crosscutting issues may exist. Because the Agency has not implemented ERM at the agencywide entity level, we are unable to quantify the impact of ERM as it relates to annual and supplemental appropriations.

## Conclusion

The OCFO is responsible for interpreting fiscal legislation, leading and managing compliance with OMB Circular A-123, and conducting agencywide risk assessments for all appropriations. Risk assessment should drive internal control activities and should monitor their effectiveness. The OCFO has not fully implemented the requirements of OMB Circular A-123, specifically the ERM process at the entity level. Because of its outdated policies, the OCFO relies on division-level offices' assurances that internal controls are effective and does not audit the information or conduct entity-level risk assessments for agencywide and crosscutting issues. By following outdated division-level risk-management processes, the OCFO, as delegated by the Agency, cannot provide the direction necessary for management and staff to perform their ERM responsibilities, including agencywide entity-level risk assessments for annual and supplemental appropriations. In addition, the OCFO cannot provide reasonable assurance that crosscutting risks are identified and mitigated and that Agency resources are directed to the most critical strategic issues.

## Recommendations

We recommend that the chief financial officer:

1. Improve the Agency's strategy for implementing enterprise risk management by incorporating and communicating the executive-official engagement needed in risk activities to achieve full compliance with Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.
2. Establish Agency policies and procedures—including updates to Resource Management Directives System 2520, *Administrative Control of Appropriated and Other Funds*; EPA Order 1000.24, *Management's Responsibility for Internal Controls*; and EPA Delegation 1-16, *Agency CFO-Accounting, Budgeting, and Other Financial Management Activities*—to comply with Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

## Agency Response and OIG Assessment

The OIG met with the OCFO on October 4, 2021, to discuss our draft report findings and recommendations. The OCFO provided a response to the draft report on October 12, 2021 (Appendix C). The OCFO disagreed with Recommendation 1 as drafted but provided corrective actions to address the recommendation. The OCFO agreed with Recommendation 2.

Our draft Recommendation 1 stated that the chief financial officer should “[d]evelop and communicate a strategy to implement, direct, and oversee Agencywide enterprise risk management, as required by the 2016 revision of Office of Management and Budget Circular A-123.” The OCFO disagreed that it needed to develop and communicate a strategy since it initiated ERM as part of its strategic reviews in 2016 and aligned ERM with its internal control program in 2017. The OCFO provided us with additional information on its actions, and we agree that the Agency has initiated efforts to develop and communicate an ERM strategy. However, as presented in our report, the Agency's initial efforts relied upon risk assessments at the senior-leadership or EPA-program level. The OCFO did not demonstrate that the entity level of the Agency, as defined in Table 2, “EPA-defined levels of organizational structure,” actively participated in the agencywide risk-assessment process through the development of an entity-level risk inventory and risk profile as part of its executive-level duties.

Although the Agency disagreed with our draft report Recommendation 1 as written, the Agency agreed that it could improve implementation of its ERM program and provided a corrective action plan, which included two actions:

- Strengthen the annual *Strategic Review and Internal Control Guidance* to ensure Agency senior managers are aware of their responsibilities for ERM and internal control activities
- More explicitly communicate ERM and internal controls responsibilities to the Agency.

We agree that these actions would address the intent of our draft report recommendation, as long as they (1) address the executive-official engagement needed at the entity level to ensure compliance with OMB Circular A-123 and (2) include a specific completion date. Accordingly, we revised Recommendation 1. However, because the EPA's corrective action plan did not include estimated milestone dates, we consider this recommendation unresolved.

The OCFO agreed with our draft Recommendation 2, which stated, “After developing the strategy from Recommendation 1, establish Agency policies and procedures, including updates to Resource Management Directives System 2520, Administrative Control of Appropriated and Other Funds, EPA Order 1000.24, and EPA Delegation 1-16, to comply with Office of Management and Budget Circular A-123 requirements.” According to the OCFO, it has begun updating ERM-related policies and procedures and plans to complete its corrective actions by December 31, 2021. Since the OCFO provided evidence of its efforts to develop and communicate an agencywide ERM strategy in response to draft Recommendation 1, we revised Recommendation 2 to eliminate the reference to the “strategy.” We consider this recommendation to be resolved with corrective actions pending.

# Status of Recommendations

## RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date
1	7	Improve the Agency's strategy for implementing enterprise risk management by incorporating and communicating the executive-official engagement needed in risk activities to achieve full compliance with Office of Management and Budget Circular A-123, <i>Management's Responsibility for Enterprise Risk Management and Internal Control</i> .	U	Chief Financial Officer	
2	7	Establish Agency policies and procedures—including updates to Resource Management Directives System 2520, <i>Administrative Control of Appropriated and Other Funds</i> ; EPA Order 1000.24, <i>Management's Responsibility for Internal Controls</i> ; and EPA Delegation 1-16, <i>Agency CFO-Accounting, Budgeting, and Other Financial Management Activities</i> —to comply with Office of Management and Budget Circular A-123, <i>Management's Responsibility for Enterprise Risk Management and Internal Control</i> .	R	Chief Financial Officer	12/31/21

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

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

## ***Interdependence Hierarchy of Federal Internal Control Requirements***

The FMFIA requires each executive federal agency to establish an internal control system that provides reasonable assurances that:

- (i) obligations and costs are in compliance with applicable law;
- (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The GPRMA Modernization Act of 2010 amended the GPRMA of 1993 to require each executive agency to annually make its strategic plan available on its public website and to the OMB. The GPRMA Modernization Act of 2010 also requires agencies to prepare and submit, as part of their annual budget submissions, performance plans that include agency priority goals. Agencies will, on a quarterly basis, assess performance information related to their priority goals identified in the annual performance plans. As a result, the Act creates a process or framework that clearly links strategic planning to annual performance goals and results reporting.

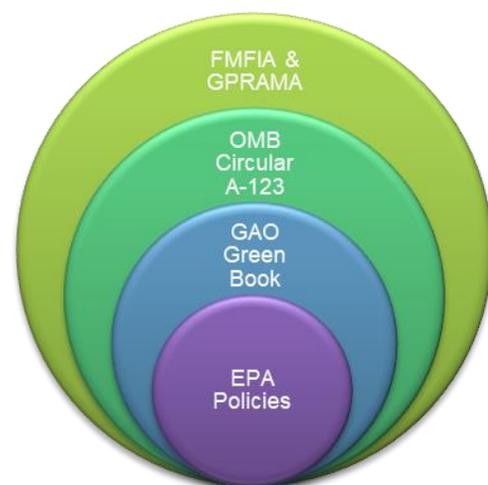
The Green Book serves as the framework for federal agencies to develop, implement, and operate an effective internal control system. Through the implementation of Green Book standards, federal agencies will have the ability to comply with OMB Circular A-123 assessment and reporting requirements.

The OCFO's Resource Management Directives System Policy Manual 2520 implements OMB Circular A-123. The manual provides guidance to Agency managers on using a variety of tools to achieve desired program results and meeting the requirements of the FMFIA. In addition, the manual identifies the EPA's fund-control principles, as well as the policies and procedures that apply to all program offices.

EPA Order 1000.24 identifies management's requirements to establish and maintain effective internal controls over program operations.

Together, the FMFIA, OMB Circular A-123, the Green Book, and EPA policies create an interdependent hierarchy that emphasizes the risk-assessment process, both financial and operational, for all levels of the organization (Figure A-1).

**Figure A-1: The interdependent hierarchy of federal internal control requirements**



Source: OIG analysis of federal requirements. (EPA OIG image)

Legend: GPRAMA = Government Performance and Results Modernization Act of 2010

## *Prior EPA OIG Reports*

The table below lists EPA OIG audit reports issued from 2017 through 2021 that identified deficiencies related to risk assessments, internal control design, and implementation and monitoring of internal controls at the program and entity level. The OIG findings and recommendations consistently identified noncompliance with the FMFIA, OMB Circular A-123, and the Green Book.

Report number	Title	Date	Findings
<a href="#">17-P-0205</a>	<i>Controls Needed to Track Changes to EPA's Compass Financials Data</i>	May 8, 2017	OCFO needs to strengthen internal controls to certify that any changes made to the Compass Financials application are implemented based on management approval. OCFO lacked documentation to support the approval and verification of direct modifications made to the Compass database.
<a href="#">17-P-0407</a>	<i>EPA Needs to Strengthen Internal Controls Over Retention Incentives</i>	September 26, 2017	EPA did not perform monitoring reviews due to a misunderstanding of oversight responsibilities among various program offices.
<a href="#">18-P-0250</a>	<i>Management Alert: EPA Oversight of Employee Debt Waiver Process Needs Immediate Attention</i>	September 12, 2018	Internal controls failed to detect EPA employee debt waiver requests, even though the Agency's payroll provider forwarded this information to EPA's OCFO. OCFO was not aware of the missing waivers until OIG brought them to the office's attention.
<a href="#">20-P-0170</a>	<i>EPA Needs to Conduct Risk Assessments When Designing and Implementing Programs</i>	May 18, 2020	EPA needs to conduct risk assessments when designing and implementing programs in accordance with the Green Book and OMB Circular A-123.
<a href="#">20-P-0194</a>	<i>EPA's Office of the Chief Financial Officer Lacks Authority to Make Decisions on Employee-Debt Waiver Requests</i>	June 15, 2020	OCFO improperly made decisions on employee debt waiver requests that resulted in erroneous overpayments for salary, travel, transportation, or relocation expenses.
<a href="#">20-P-0200</a>	<i>EPA Needs to Address Internal Control Deficiencies in the Agencywide Quality System</i>	June 22, 2020	The Office of Mission Support has not fully implemented internal controls for the mandatory Agencywide Quality System. It has not reviewed policies, procedures, and guidance within required time frames. For example, reviews of two quality policies were 15 years overdue. Additionally, the Office of Mission Support has not conducted required annual reviews for five years, has not assessed staff and resource needs since 2008, and has not performed a programmatic risk assessment.

Report number	Title	Date	Findings
<a href="#">21-P-0042</a>	<i>EPA Needs to Substantially Improve Oversight of Its Military Leave Processes to Prevent Improper Payments</i>	December 28, 2020	EPA has not fully complied with federal laws related to military leave, reservist differential, and military offset. This occurred because Agency management did not establish effective internal controls to implement these laws. EPA instead relied on reservists, their supervisors, and the Agency's federal payroll provider to comply with federal requirements.
<a href="#">21-E-0128</a>	<i>EPA Did Not Conduct Agencywide Risk Assessment of CARES Act Appropriations, Increasing Risk of Fraud, Waste, Abuse, and Mismanagement</i>	May 4, 2021	Despite OMB Circular A-123 and Green Book requirements, OCFO did not conduct an agencywide risk assessment of funding from the Coronavirus Aid, Relief, and Economic Security Act to identify risks that could impact the success of the Act's objectives.

## Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

October 12, 2021

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### MEMORANDUM

**SUBJECT:** Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0003, “EPA’s Office of the Chief Financial Officer Has Not Performed Agencywide Risk Assessments, Increasing the Risk of Fraud, Waste, Abuse and Mismanagement,” dated August 26, 2021

**FROM:** Faisal Amin, Chief Financial Officer  
Office of the Chief Financial Officer

**Amin,  
Faisal**

Digitally signed by  
Amin, Faisal  
Date: 2021.10.12  
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**TO:** Khadija E. Walker, Director  
Contract and Assistance Agreement Directorate  
Office of Audit

Thank you for the opportunity to respond to the issues and recommendations in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency’s overall position along with its position on the report’s recommendations.

### AGENCY’S OVERALL POSITION

The draft report contains two recommendations for the Office of the Chief Financial Officer. The OCFO agrees with Recommendation 2 and has already established corrective actions; however, the OCFO disagrees with Recommendation 1, as written, but offers corrective actions based on our understanding of the intent of the recommendation to improve the EPA’s Enterprise Risk Management program. As discussed at the October 4, 2021, exit conference with your office, the OCFO agreed to provide suggested language for Recommendation 1 and asks that the OIG also consider changing language in the report to align with the recommendation:

*The OCFO should continue to strengthen its communication and oversight over agencywide enterprise risk management, as required by the 2016 revision of Office of Management and Budget’s Circular A-123.*

During the Office of Inspector General’s fieldwork for this engagement, the OIG advised the OCFO that the focus and objective of this engagement was on risk assessments for supplemental appropriations. However, based upon the title of this draft report and the findings within, it

appears the OIG has broadened its scope to focus on the agency's implementation of Enterprise Risk Management rather than risk assessments solely related to annual and supplemental appropriations.

The draft document states the OCFO did not concur with two recommendations within the OIG's Report No. 21-E-0128, "*EPA Did Not Conduct Agencywide Risk Assessment of CARES Act Appropriations, Increasing Risk of Fraud, Waste, Abuse, and Mismanagement*" dated May 4, 2021. However, on June 28, 2021, the OCFO provided the OIG a response that the OCFO concurred with the OIG's recommendation to perform and document a risk assessment for the *Coronavirus Aid, Relief, and Economic Security Act* and subsequent supplemental appropriations. To implement this recommendation, the OCFO has coordinated developing entity-wide risk assessments for the *CARES Act* and the *American Rescue Plan Act of 2021* and is currently preparing to do so for future supplemental appropriations.

The OCFO would like to take this opportunity to briefly describe its management of the EPA's ERM program, internal controls, and risk assessments for annual and supplemental appropriations.

## ENTERPRISE RISK MANAGEMENT

The EPA initiated ERM as an integral part of agency strategic reviews in FY 2016 and aligned it with the internal control program in FY 2017, following issuance of the OMB's A-123 revision and updates to A-11 on strategic reviews. The OCFO established a systematic risk assessment process to identify and assess risks to achieve the strategic objectives in the EPA's Strategic Plan. The OCFO provides annual guidance to agency senior leaders, as well as a tool to support completing the risk assessments. Agency senior leaders review available data and evidence (e.g., performance data trends, program evaluations, strategic foresight horizon scanning, OIG and GAO reports, internal control reviews, and program risk assessments) and rely on their judgment and experience in assessing risks to achieve the strategic objectives. The OCFO reviews and analyzes the results of the strategic objective risk assessments to identify common themes across the agency's significant risks. The CFO briefs senior leaders on the top significant risks that are then ranked by agency senior leadership to determine the agency's enterprise risks. This enterprise risk profile constitutes the most significant risks the agency faces toward achieving its strategic objectives in the EPA's Strategic Plan. Senior leaders are then responsible for identifying actions to mitigate the enterprise risks and providing quarterly progress reports to the OCFO and agency leadership as needed.

## INTERNAL CONTROLS

To comply with requirements in the *Federal Managers' Financial Integrity Act*, the OCFO provides instructions and tools to senior managers through its annual guidance for preparing the Assistant Administrators' and Regional Administrators' annual assurance letters. Senior managers are responsible for identifying and assessing program risks, establishing internal controls, and attesting to the soundness of internal controls for their respective organization. During the review and analysis, the OCFO verifies compliance with agency guidance, notes the status and progress in addressing current weaknesses, and identifies emerging and cross-cutting issues that require senior management attention.

The OCFO also conducts reviews of cross-agency processes (i.e., travel, payroll, media programs) to evaluate the effectiveness of internal controls and identify deficiencies that impact the agency overall. The OCFO provides its assessment of the AAs' and RAs' assurance letters and identified weaknesses as the basis for developing the Administrator's statement of assurance on the overall effectiveness of the agency's internal controls. This information also is used to identify which cross-cutting areas or functions that program offices will be required to evaluate and report on in the future.

**ANNUAL AND SUPPLEMENTAL RISK ASSESSMENTS**

As discussed above, the OCFO agreed with the OIG's recommendation to perform and document risk assessments for supplemental appropriations in its June 28, 2021, CARES Act audit response. In July, the OCFO coordinated with program and regional offices to conduct the CARES Act and American Rescue Plan Act risk assessments and developed a format and procedures to assess and document risks for future supplemental appropriations. The OCFO worked with other offices to develop a standard format to collect and analyze and assess risks as well as updated its operating procedures to ensure that risk assessments for appropriations are documented. The standard format identifies particular risks, the fund involved, estimated risk likelihood, impact and overall risk ranking, risk functional area (e.g., contracts, grants, finance) and any related internal controls descriptions and implementation status. The OCFO also updated Standard Operating Procedures related to appropriations to incorporate these changes.

**RESPONSE TO RECOMMENDATIONS**

The OCFO disagrees with Recommendation 1 and concurs with Recommendation 2 as described below.

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date
1	Develop and communicate a strategy to implement, direct, and oversee agencywide enterprise risk management, as required by the 2016 revision of Office of Management and Budget Circular A-123.	<p>The OCFO disagrees with the OIG's statement that the OCFO needs to develop, communicate, and implement agencywide ERM.</p> <p>The EPA initiated ERM as an integral part of the agency's strategic reviews in 2016 and aligned it with the internal control program in 2017. Notably, in FY 2020 the agency began incorporating program risk assessments in its annual guidance.</p> <p>However, the OCFO recognized we could improve the program and will continue to strengthen the annual Strategic Review and Internal Control Guidance to ensure agency senior managers are aware of their</p>	<p><b>February 2020</b></p> <p><b>Ongoing</b></p>

		responsibilities for ERM and internal control activities. As part of these efforts, beginning in FY 2021, the OCFO implemented performing and documenting risk assessments for all supplemental appropriations. The OCFO also will be more explicit in communicating ERM and internal controls responsibilities to the agency.	
2	After developing the strategy from Recommendation 1, establish agency policies and procedures, including updates to Resource Management Directives System 2520, Administrative Control of Appropriated and Other Funds, EPA Order 1000.24, and EPA Delegation 1-16, to comply with Office of Management and Budget Circular A-123 requirements.	The OCFO agrees with the recommendation to update ERM and internal controls guidance to reflect the 2016 revisions of the OMB's Circular A-123. The OCFO already began updating the Resource Management Directives System (RMDS) 2520: <i>Administrative Control of Appropriated and Other Funds</i> ; EPA Order 1000.24, <i>Management's Responsibility for Enterprise Risk Management and Internal Control</i> ; and Delegation 1-16, <i>Agency Chief Financial Officer/Accounting, Budgeting and Other Financial Management Activities</i> .	<b>12/31/2021</b>

**CONTACT INFORMATION**

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

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