



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

22-P-0050
June 27, 2022

Why We Did This Audit

The Office of Inspector General conducted this audit to determine whether the U.S. Environmental Protection Agency met the requirements of the Payment Integrity Information Act of 2019 as they relate to the formulation and inclusion of payment integrity information in the *Fiscal Year 2021 Agency Financial Report* and accompanying materials.

The Payment Integrity Information Act of 2019 requires inspectors general to determine and report their agencies' compliance with the Act every fiscal year. The Act also requires the heads of each agency to periodically review and identify all programs and activities with costs exceeding the \$10-million statutory threshold that may be susceptible to significant improper payments. Prior to fiscal year 2021, the EPA had designated its grants payments as susceptible to significant improper payments.

This audit supports EPA mission-related efforts:

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

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

- *Managing infrastructure funding and business operations.*

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The EPA Was Not Compliant with the Payment Integrity Information Act for Fiscal Year 2021

What We Found

The EPA was not compliant with the Payment Integrity Information Act of 2019 because the Agency did not adhere to all of the Office of Management and Budget improper payment reporting requirements for fiscal year 2021. Specifically, the EPA did not adequately conclude whether its programs with annual outlays greater than \$10 million were likely to make improper payments above or below the statutory threshold.

The EPA needs to implement appropriate control measures to better identify and reduce the risk of its improper payments.

The EPA divides its expenditures into ten payment streams, eight of which have annual outlays greater than \$10 million. In fiscal year 2021, with respect to the grants payment stream, while the Agency reviewed payments to determine the error rate and estimate the value of improper payments, it did not incorporate the cost-allowance principles set forth in 2 C.F.R. part 200, subpart E. This oversight occurred because the Office of the Chief Financial Officer's *Standard Operating Procedure Grants Improper Payment Review*, which was updated in September 2021, was not completed in time to use for the fiscal year 2021 risk assessment. The standard operating procedure is intended to be used to review the allowability of grant payments. For the remaining seven payment streams with outlays greater than \$10 million, the EPA did not establish an adequate methodology for determining risk-assessment attributes and results.

The Agency may not have reported approximately \$10.3 million in improper payments—of which approximately \$8.6 million may be subject to recovery—because it did not apply the cost-allowance principles in the Agency's review of grants payments. Further, because the EPA has not established an adequate methodology for risk assessments, the Agency's risk-assessment process does not provide reasonable assurance that payment streams are not susceptible to improper and unknown payments above the statutory threshold or, in other words, are susceptible to significant improper payments.

Recommendations and Planned Agency Corrective Actions

We make four recommendations to the chief financial officer, which address reviewing the OIG-identified questioned costs, determining the payment allowability, recovering costs and recalculating the error rate, conducting an off-cycle risk assessment, updating applicable standard operating procedures, and training Agency personnel on the application of cost principles. The EPA agreed with our recommendations and provided an acceptable corrective action for one recommendation. However, it did not provide acceptable corrective actions for the remaining three recommendations. Recommendation 3 is resolved with corrective actions pending. Recommendations 1, 2, and 4 remain unresolved.