



At a Glance

Audit of the EPA's Resolution of Improper Payments Identified Through Its Annual Review of the State Revolving Fund Program

Why We Did This Audit

To accomplish this objective:

The U.S. Environmental Protection Agency Office of Inspector General conducted this audit to determine whether the EPA appropriately identified and resolved improper payments during its annual review of the State Revolving Fund Program. The Payment Integrity Information Act of 2019 requires the head of each executive agency to periodically review and identify all programs and activities with outlays exceeding the \$10 million statutory threshold to determine whether they are susceptible to significant improper payments.

A payment is "proper" if it is made to the right recipient for the right amount and if it meets all applicable legal requirements. A payment is "improper" if it was made for an incorrect amount, if it was made to the wrong recipient, or if it was not made in accordance with applicable requirements. An unknown payment is a payment that an agency cannot determine to be either proper or improper because of insufficient or a lack of documentation.

For programs identified as risk-susceptible, the Act requires agencies to produce estimates for improper payments, take steps to reduce improper payments, and recover funds that are subject to recovery.

To support this EPA mission-related effort:

- *Operating efficiently and effectively.*

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What We Found

The EPA did not appropriately identify unknown and improper payments or properly track them for reporting and resolution, which resulted in the Agency's regions underreporting unknown and improper payments by approximately \$54.4 million for fiscal year 2022 and \$8.8 million for fiscal year 2023 for the transactions we reviewed. We reviewed 20 transactions selected from the 751 transactions the Agency sampled during its annual reviews and found errors in 19. During the EPA's review of state revolving fund transactions, regional staff accepted unapproved or unsigned construction invoices and summary data rather than individual invoices to support payments made from the State Revolving Fund Program. According to the Payment Integrity Information Act, if an agency cannot determine whether a payment is proper or not because there is a lack of or insufficient information, the agency must treat that payment as improper. Appendix C of Office of Management and Budget Circular A-123 refers to such payments as unknown payments. We also found instances in which the EPA identified improper payment transactions in testing worksheets but failed to include the improper payments in required reports.

These outcomes occurred because reviewers did not follow standard operating procedures when reviewing transactions and preparing program evaluation reports. As a result, the EPA does not have accurate information to make an assessment as to whether the State Revolving Fund Program is at risk of improper payments as the Payment Integrity Information Act requires.

Without proper identification of unknown and improper payment transactions made through the EPA's State Revolving Fund Program, the Agency cannot make accurate determinations about the success of the states' loan programs or whether state revolving fund controls are operating effectively.

Recommendations and Planned Agency Corrective Actions

We recommend that the assistant administrator for Water evaluate, in light of the underreporting of improper payments identified in this audit, the risk assessment that the Agency used for state revolving fund programs as the Payment Integrity Information Act of 2019 requires; revise, disseminate, and enforce the EPA's Transaction Testing Standard Operating Procedures to establish robust methods for identifying errors when conducting improper payment testing; and establish robust controls for conducting quality control reviews of the improper payment testing performed. The Office of Water did not provide proposed corrective actions and estimated completion dates for Recommendations 1, 2, and 3. These recommendations are unresolved with resolution efforts in progress.

We also recommend that the chief financial officer incorporate the findings from this audit, as well as relevant reports from other internal and external sources, to support a more comprehensive and informed risk assessment process in future risk evaluations. The Office of Finance and Administration provided a proposed corrective action and estimated completion date for Recommendation 4. This recommendation is resolved pending completion of corrective actions.