OFFICE OF FINANCE AND ADMINISTRATION
WASHINGTON, D.C. 20460

March 12, 2026

MEMORANDUM

SUBJECT: Response No. 2 to the Office of Inspector General Final Report No. 25-P-0033, *"Audit of the EPA's Fiscal Year 2024 Compliance with the Payment Integrity Information Act 2019,"* dated May 27, 2025.

FROM: C. Paige Hanson, Chief Financial Officer and Chief Administrative Officer C. Paige Hanson

TO: Nicole N. Murley, Deputy Inspector General Performing the Duties of the Inspector General
Office of the Inspector General

In response to the OIG's Corrective Actions Memorandum dated October 7, 2025, the Office of Finance and Administration is providing an updated response for unresolved recommendation no. 4. The agency would like to provide clarification on the agency's grant payment stream's status of susceptibility for FY 2025, based upon criteria for Phase I and Phase II designation, as outlined in the Office of Management and Budget's Circular A-123, Appendix C, *"Requirements for Payment Integrity Improvement"*.

Grants Payment Stream FY 2025 Susceptibility to Significant Improper Payments Status
(Phase I vs. Phase II)

On November 15, 2023, the OFA's Office of Financial Operations and Management determined through a qualitative risk assessment that the grants payment stream was likely to be susceptible to significant improper payments. This was published in the *U.S. Environmental Protection Agency's Fiscal Year 2023 Agency Financial Report* (FY2023 AFR). This determination moved the grants payment stream from Phase I to Phase II for FY 2024 and required the agency to perform transaction testing using a Sampling and Estimation Plan Methodology (S&EMP), based upon criteria outlined in OMB Circular A-123, Appendix C.

On May 29, 2024, the Office of the Inspector General released Report No. 24-P-0041, "*The EPA Complied with the Payment Integrity Information Act for Fiscal Year 2023 but Needs to Improve Its Oversight Efforts for Improper and Unknown Payment Activities"*. This report stated that "the EPA is compliant with the PIIA and related OMB guidance for its FY 2023 improper payments reporting."

During FY 2024, the agency performed improper and unknown payment transaction testing using the agency's S&EMP. On November 15, 2024, in the FY 2024 AFR, the agency reported an IP and UP rate of 0.77% for the grants payment stream, which is below the statutory threshold. As a result, EPA's grants payment stream moved from Phase II to Phase I for FY 2025 due to both of the following OMB requirements being satisfied at that time:

1. Established a baseline and reported an IP and UP estimate that is below the statutory threshold.
2. The OIG did not issue a non-compliance finding for the program in the previous year (OIG Report No.24-P-0041).

On May 27, 2025, the OIG released Report No. 25-P-0033, *"Audit of the EPA's Fiscal Year 2024 Compliance with the Payment Integrity Information Act of 2019"*. This report found that "The EPA did not comply with applicable Office of Management and Budget requirements for the Payment Integrity Information act of 2019 for its fiscal year 2024 reporting." During fieldwork for this audit, the OIG identified a deviation in the agency's Sampling Estimation and Methodology Plan (SEMP) which resulted in 13 grant recipients being excluded from the grants population used to perform statistical sampling to identify improper payments. As a result, OFA began working with the Office of the Chief Grants Officer (OCGO) and a Statistician to perform transaction testing on the 13 grant recipients and to recalculate the grants payment stream's improper payment rate for FY 2024. Upon completion, the Statistician calculated a restated grants improper payment rate of 0.72%, thus leaving the agency in Phase I of improper payment reporting for FY 2025. These results were reported in the FY 2025 AFR in December 2025. Attached to this memorandum is the Statistician's full report on the recalculation of the agency's grant payment stream improper payment rate for FY 2024.

OFA does recognize the importance of identifying improper and unknown payments and continues identifying opportunities to enhance the agency's payment integrity activities. The OFA will continue identifying opportunities for additional transaction testing and will continue working with a Statistician to develop a new S&EMP for grants transaction testing, which will be shared with OMB prior to October 1, 2026.

AGENCY REVISED RESPONSE TO UNRESOLVED RECOMMENDATION 4:

<table>
<tr><th>Recommendation</th><th>High-Level Intended Corrective Action(s)</th><th>Planned Date</th></tr>
<tr><td>4. Perform statistical sample testing of the grants payment stream as part of the Payment Integrity Information Act of 2019 annual reporting for FY 2026 to effectively demonstrate payment integrity compliance. The statistical sample testing should utilize the updated Sampling and Estimation Methodology Plan and updated internal standard operating procedures to ensure that the EPA has an accurate improper and unknown payment estimate for the grants payment stream.</td><td>Concur: In FY 2026, to comply with Executive Order 14249 to report PIIA activities by assistance listing, the agency will no longer recognize all grant programs as one payment stream but will instead report grant programs with over $10 million in outlays as individual programs for PIIA reporting. The Clean School Bus grants program, the Clean Water State Revolving Fund, and the Drinking Water State Revolving Fund will no longer be payment streams separate from the one grant payment stream but will be considered grant programs under the revised approach. As a result:
The Agency will conduct statistical sample testing in FY 2026 for the Clean School Bus Grants Program, Clean Water State Revolving Fund grants, and Drinking Water State Revolving Fund grants. This statistical sample testing will use updated internal SOPs and Sampling and Estimation Methodology Plan to ensure accurate estimates. Results of these quantitative assessments will inform program risk status and future testing actions.
In alignment with PIIA and OMB Circular A-123, Appendix C, all grant programs with over $10 million in outlays for FY 2025 will complete a Qualitative Risk Assessment (QLRA), with results used to determine susceptibility to significant improper payments and reported in the FY 2026 Agency Financial Report (AFR). Programs identified as susceptible will conduct transaction testing in FY 2027 under the Agency's updated Sampling and Estimation Methodology Plan. Results of these quantitative assessments will inform program risk status and future testing actions.</td><td>9/15/26</td></tr>
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CONTACT INFORMATION

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

ATTACHMENT
1. NCEE Improper Payment Feedback

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