



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Corrective Action Plan Needed in Order to Fully Comply With the Improper Payments Elimination and Recovery Act

Report No. 13-P-0175

March 11, 2013



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Abbreviations

AFR	Agency Financial Report
CFR	Code of Federal Regulations
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IGMS	Integrated Grants Management System
IPERA	Improper Payments Elimination and Recovery Act of 2010
NPTCD	National Policy, Training and Compliance Division
OCFO	Office of the Chief Financial Officer
OGC	Office of General Counsel
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
OW	Office of Water
PERs	Program Evaluation Reports
SRF	State Revolving Fund

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At a Glance

Why We Did This Review

The Office of Management and Budget (OMB) issued governmentwide guidance for implementation of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) on April 14, 2011. The guidance described requirements for agencies' improper payments reporting and inspectors' general responsibilities to review agency reporting. Our objective was to determine whether the U.S. Environmental Protection Agency (EPA) was in compliance with IPERA.

This report addresses the following EPA Goal or Cross-Cutting Strategy:

- *Strengthening EPA's workforce and capabilities.*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2013/20130311-13-P-0175.pdf

Corrective Action Plan Needed in Order to Fully Comply With the Improper Payments Elimination and Recovery Act

What We Found

EPA did not comply with the IPERA because the fiscal year (FY) 2012 Agency Financial Report (AFR) did not include all required elements of a corrective action plan. EPA did not include, among other things, planned and actual completion dates for corrective actions and improper payment reduction targets.

EPA also misstated improper payments for state revolving funds (SRFs), grants, and contracts and commodities payment streams in the FY 2012 AFR. Specifically:

- For the SRF programs, EPA significantly misstated improper payments because Office of Water staff do not rely on Program Evaluation Reports when reporting improper payments, and because regional office staff did not always correctly calculate the amount of the improper payment.
- For the grants programs, \$39,694 was not reported as improper payments due to weaknesses in the reporting process for improper payments.
- EPA did not include discounts not taken for contracts and commodities because EPA disagrees that these should be reported as improper payments.

Recommendations and Planned Agency Corrective Actions

We recommend that the Chief Financial Officer submit a plan to Congress describing actions the Agency will take to become compliant with IPERA, develop specific guidance to define "applicable discounts" for IPERA reporting purposes, and include any payment that does not account for credit for an applicable discount as an improper payment in EPA's FY 2013 AFR. We recommend that the Assistant Administrator, Office of Water, identify improper payments using the Program Evaluation Reports and transaction testing worksheets. Finally, we recommend that the Assistant Administrator, Office of Administration and Resources Management, determine why errors occurred, implement actions to ensure accurate reporting, and revise the interim guidance for IPERA. The Agency concurred with all of the recommendations and provided its intended corrective actions and estimated completion dates.



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

THE INSPECTOR GENERAL

March 11, 2013

MEMORANDUM

SUBJECT: Corrective Action Plan Needed in Order to Fully Comply With the
Improper Payments Elimination and Recovery Act
Report No. 13-P-0175

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: Barbara J. Bennett, Chief Financial Officer

Craig E. Hooks, Assistant Administrator
Office of Administration and Resources Management

Nancy K. Stoner, Acting Assistant Administrator
Office of Water

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends.

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. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist, assistant inspector general for the Office of Audit, at (202) 566-0899 or heist.melissa@epa.gov; or Janet Kasper, director for Contracts and Assistance Agreements Audits, at 312-886-3059 or kasper.janet@epa.gov.

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Chapter 1

Introduction

Purpose

The Office of Management and Budget (OMB) issued governmentwide guidance for implementation of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) on April 14, 2011.¹ This guidance describes requirements for agencies' improper payments reporting, and inspectors general responsibilities to review agency reporting. Our objective was to determine whether the U.S. Environmental Protection Agency (EPA) is in compliance with IPERA.

Background

IPERA requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments.² The act also significantly increased requirements for payment recapture efforts by expanding the types of payments that must be reviewed and by lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs. Agencies are to report on improper payments:

- Voluntarily returned by contractors.
- Used to offset future payments.
- Identified and returned to the agency through Office of Inspector General (OIG) efforts, such as audits, reviews, or tips from the public.
- Identified and recovered through management post-payment reviews and close-outs.³

Annually, inspectors general are required to determine whether agencies are in compliance with IPERA. Compliance means that the agency has:

- Published an Agency Financial Report (AFR) for the most recent fiscal year and posted it on the agency website.
- Conducted a program-specific risk assessment (if required).
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments (if required).

¹ OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*.

² OMB defines "significant" as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

³ OMB Memorandum M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*.

- Published programmatic corrective action plans (if required).
- Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments.
- 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.
- Reported information on efforts to recapture improper payments.

An agency is not compliant if it does not meet one or more of these requirements. Inspectors general should evaluate (1) the accuracy and completeness of agency reporting, and (2) agency performance in reducing and recapturing improper payments.

Scope and Methodology

We conducted this audit from November 2012 to February 2013 in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. 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.

To determine whether EPA is in compliance with IPERA, we reviewed EPA's fiscal year (FY) 2012 AFR and accompanying materials. We reviewed prior OIG internal control review workpapers for each payment stream. We interviewed Agency staff at EPA headquarters from the Office of the Chief Financial Officer (OCFO), the Office of Grants and Debarment (OGD), and the Office of Water (OW). We also interviewed OCFO staff from the Research Triangle Park Finance Center.

We gained an understanding of the processes, procedures, and controls used for IPERA reporting across the three payment streams – state revolving fund (SRF), grants, and commodities and contracts.⁴ We traced judgmental samples of reported improper payments from each payment stream back to source documentation to test the accuracy of improper payments reporting in EPA's FY 2012 AFR.

- For the Clean Water SRF (CWSRF), we judgmentally selected the largest three reported improper payment amounts, which resulted in testing 97.6 percent of the \$12.8 million reported as CWSRF improper payments. We also selected the three largest amounts of Drinking Water SRF (DWSRF) improper payments reported, which resulted in our testing 97.0 percent of the \$1.1 million of improper payments.

⁴ EPA, with OMB's approval, uses a different 12-month period for each payment stream reported; SRFs are based on state fiscal years, grants are based on the prior calendar year (2011), and contracts and commodities are based on the current FY (2012).

- We judgmentally selected at least one grant from each type of grant review (A-133, desk review, onsite review, or administrative enforcement) from the EPA's reported grant improper payments for calendar year 2011. The sample accounts for \$383,726 of unallowed costs identified as improper payments, or 63.0 percent of EPA's reported total unallowed costs.
- We selected all contract improper payments greater than \$2,000, resulting in a sample size of 14 payments totaling \$947,937, representing 99.4 percent of contract improper payments.
- For commodities, we selected the first improper payment for each month and continued to rotate through each month, selecting the second, third, etc., until our sample size equaled at least 50 percent of the gross amount of reported improper payments. The resulting sample size was 24 improper payments totaling \$187,899, or 52.0 percent of the total reported improper payments for commodities.

In addition to selecting a sample of transactions reported as improper payments, we also looked for transactions that EPA did not report as improper payments. For example, we reviewed program evaluation reports (PERs) for states where EPA did not report improper payments, to verify that improper payments were not identified. We also reviewed grant accounts receivable for receivables that were the result of improper payments.

We used information from several EPA data systems during our work, including:

- Integrated Grants Management System (IGMS).
- Contract Payment System.
- Small Purchase Information Tracking System.
- 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 the current audit, we followed up on Agency corrective actions from the EPA OIG's Report No. 12-P-0311, *EPA Can Improve Its Improper Payments Reporting*, issued March 1, 2012. We found all but one action had been taken. The corrective action not taken is discussed in chapter 5.

Chapter 2

EPA Is Not in Compliance With IPERA

EPA is not in compliance with IPERA because EPA did not publish a corrective action plan as required by the act. IPERA requires a plan to accompany an agency's report on improper payments, if the improper payments exceed \$10 million. EPA reported over \$13.38 million in improper payments for the SRF program. EPA's FY 2012 AFR did include a corrective action section that included some, but not all, of the required elements of a plan. According to OCFO staff, a more detailed corrective action plan was not published. EPA staff indicated that their understanding was that the plan was not required until the FY 2013 AFR. As a result, EPA is not in compliance with IPERA and risks delaying necessary corrective actions.

IPERA Requires Corrective Action Plans

IPERA Section 2(c) requires corrective action plans for any agency program with estimated improper payments that exceed \$10 million, and also requires the plan to be submitted with the agency's estimate of improper payments. IPERA requires the plan to include the following:

- A description of the causes of the improper payments, actions planned or taken to correct those causes, and the planned or actual completion date of the actions.
- A statement of whether the agency has what is needed with respect to internal controls, human capital, and information systems and other infrastructure in order to reduce improper payments.
- If the agency does not have sufficient resources to establish and maintain effective internal controls, a description of the resources the agency has requested in its budget submission to establish and maintain such internal controls.
- Program-specific improper payment reduction targets that have been approved by the OMB director.
- A description of the steps the agency has taken to ensure agency managers, programs, and, where appropriate, states and localities are held accountable with performance appraisal criteria for meeting applicable improper payment reduction targets and establishing and maintaining sufficient internal controls.

IPERA Section 3(c) states that if the inspector general determines an agency is not in compliance with IPERA, the agency must submit a plan to Congress that describes the following:

- Measurable milestones to be accomplished in order to achieve compliance for each program or activity.
- The designation of a senior agency official who shall be accountable for the progress of the agency coming into compliance.
- The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official leading agency efforts to achieve compliance.

EPA Did Not Publish a Corrective Action Plan

EPA did not publish a corrective action plan. EPA reported \$13.38 million in improper payments for the SRF program. FY 2012 was the first year that the SRF program exceeded the threshold for significant improper payments as established by IPERA and triggered the requirement for a corrective action plan. EPA's FY 2012 AFR did contain a corrective action section, but Agency staff informed us this was a required section of the AFR and not synonymous with a corrective action plan. The corrective action section of the AFR did describe the causes of the improper payments and actions taken to correct the improper payments, which is one of the required elements of a corrective action plan. However, the AFR did not include the rest of the required elements.

OCFO staff did not publish a plan because they concluded the plan was not due until FY 2013 in order to provide ample time for the Agency to develop the plan. The AFR stated that the Agency will work with OMB during FY 2013 to refine its methodology for sampling and estimating improper payments in the SRFs.

EPA's AFR did not include a corrective action plan as required by IPERA Section 2(c). In addition to being required by law, the corrective action plan could assist EPA in identifying the actions needed to reduce improper payments in FY 2013.

Recommendation

We recommend that the Chief Financial Officer:

1. Within 90 days prepare a report for the Administrator to submit to Congress and include the elements described in IPERA Section 3(c) in the report.

Agency Comments and OIG Evaluation

EPA agreed with the recommendation and within 90 days of the determination of noncompliance, the OCFO will prepare a report for the Administrator to submit to Congress. The report will include elements described in IPERA Section 3(c). EPA added that it viewed the issue of noncompliance as a technical interpretation of IPERA. The OIG believes the Agency's action, when implemented, should address the recommendation.

Chapter 3

EPA Significantly Misstated Improper Payments for SRFs

EPA significantly misstated the value of improper payments for the CWSRF and DWSRF. An improper payment is a payment that should not have been made or that was made in an incorrect amount. Based on our sample of six CWSRF PERs and seven DWSRF PERs, we found table 2 (Payment Recapture Audit Reporting) and table 6 (Overpayments Recaptured Outside of Payment Recapture Audits) of EPA's FY 2012 AFR to be overstated by \$3.98 million and \$3.24 million, respectively. EPA misstated the value of the improper payments for several reasons, but primarily because OW staff did not rely on PERs prepared by regional offices when reporting improper payments, and because regional office staff did not always correctly calculate the amount of the improper payment. Because of the frequency and large dollar value of the errors, we have little confidence in the reliability of the information EPA reported for the SRF improper payments in the FY 2012 AFR.

Definition of Improper Payment

The definition of an improper payment is determined by both IPERA and OMB guidance. IPERA defines an improper payment as a payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.

OMB guidance M-11-16 further defines an improper payment as any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment. OMB guidance M-11-16 also states that when calculating an improper payment, only the amount paid improperly should be used.

Inaccuracies in Agency Financial Report

EPA did not accurately report improper payments for the SRFs. EPA reported improper payments of \$13,382,373 in table 2 (Payment Recapture Audit Reporting) of the FY 2012 AFR. However, we found several errors resulting in an overstatement of \$3.98 million. In comparing a sample of 13 SRF PERs to supporting schedules EPA provided, we found errors (both overstatements and understatements) as described in our table 1.

Table 1: Adjustments to improper payments reported in table 2 of the FY 2012 AFR

Description	Amount
Massachusetts (CWSRF) – Improper payments identified by the state that should have been included in table 6 instead of table 2. In addition, EPA reported the total cash draws rather than the overstatement.	\$(7,615,773)*
Vermont (DWSRF) – EPA should not have included the amount as an improper payment because invoices supported the cash draw, as described in the PER.	(150,346)
Nebraska (DWSRF and CWSRF) – Improper payments identified in the PER that were not included in table 2.	2,957,900
Puerto Rico (CWSRF) – Improper payments identified in the PER that were not included in table 2.	586,284
Louisiana (DWSRF) – Checklists indicated that invoices were missing or did not support the cash draws, but these payments were not included in table 2.	237,287
AFR table 2 adjustments based on OIG sample	(\$3,984,648)

Source: OIG analysis of a sample of documents provided by EPA.

*Amounts in parentheses represent overstatements.

In the FY 2012 AFR, improper payments identified outside of payment recapture audits were reported in table 6 (Overpayments Recaptured Outside of Payment Recapture Audits). EPA reported \$5,413,070 of improper payments in table 6 of the FY 2012 AFR, which included improper payments that are self-reported and identified by audits other than payment recapture audits (see our table 2).

Prior to EPA conducting the annual PER for Massachusetts, state officials informed EPA that the state had made procedural errors over a 3-to-4-month period when processing cash draws from both the CWSRF and DWSRF. These errors resulted in improper payments. EPA properly included the DWSRF improper payment in table 6 of the AFR, but used the total amount of the cash draws rather than the overpayment. For the CWSRF, EPA incorrectly included the improper payment in table 2 of the FY 2012 AFR, and also calculated the improper payment as the total cash draw rather than the overpayment.

Table 2: Adjustments to improper payments reported in Table 6 of the FY 2012 AFR

Description	Amount
Massachusetts (DWSRF) – Improper payments were overstated as EPA reported the entire cash draw as the improper payment, rather than the overpayment.	\$(4,267,333)*
Massachusetts (CWSRF) – Improper payments were reported in table 2 rather than table 6, and EPA reported the entire cash draw as the improper payment rather than the overpayment.	1,025,875
AFR table 6 adjustments based on OIG sample	(\$3,241,458)

Source: OIG analysis of a sample of documents provided by EPA.

*Amounts in parentheses represent overstatements.

EPA Staff Need to Rely on Program Evaluation Reports

The errors in the FY 2012 AFR occurred for several reasons, but primarily because EPA OW staff did not rely on the PERs prepared by regional offices. EPA regional offices conduct annual reviews of each state's SRFs. During these reviews, regional offices select a sample of cash draws to test for improper payments. The results of the annual reviews and tests for improper payments are summarized in the PERs. In addition, EPA regional staff complete a transaction testing worksheet to summarize the results of the transaction tests. OW staff relies on the transaction testing worksheet and not the PERs when reporting improper payments for inclusion in the AFR. However, the PERs may contain details and information not included in the worksheets.

While we found problems with how EPA calculated the amount of the improper payment, EPA has taken action to address the issue. EPA regional staff did not always properly calculate the amount of the improper payment and may not understand what comprises an improper payment, as we found some worksheets to be incomplete. For Massachusetts, EPA regional staff calculated the improper payment as the total of the cash draws, rather than the overpayments associated with those cash draws. For Louisiana, the notes on one transaction testing worksheet indicated that the invoiced costs did not justify draw amounts, but there was no indication whether this was considered an improper payment. EPA's *Standard Operating Procedure for Transaction Testing* does not provide a complete definition of an improper payment or provide complete details on how improper payments should be calculated. EPA updated the standard operating procedure to include IPERA and OMB's definition of an improper payment, and instructions on how to calculate the improper payment based on the finding outlines we provided the Agency for review in December 2012. This revision, along with the training OW has planned, should clarify when a payment should be considered improper and how to calculate the value of the improper payment.

EPA's OCFO staff stated that they receive much of the improper payment data from OW in early October and do not have time to conduct a thorough analysis. However, SRF improper payments are based on the state's preceding FY ending June 30, meaning OW has the data several months before it is submitted to

OCFO. If OW provided the information earlier, OCFO would have more time to review the data for anomalies.

Reliability of SRF Information in the AFR Is Questionable

We reviewed 6 of 51 state CWSRF PERs (50 states plus Puerto Rico) and associated worksheets and found errors associated with either the value of the improper payments or the value of the disbursements tested in 5 of those PERs. We reviewed 7 of 51 DWSRF PERs and associated worksheets and found similar errors in 5 of those PERs. Because of the frequency and large dollar value of the errors, we have little confidence in the reliability of the information EPA reported for SRF improper payments in the FY 2012 AFR.

Recommendations

We recommend that the Assistant Administrator, Office of Water:

2. Require staff to use the PERs, in addition to the transaction testing worksheets, to identify improper payments.
3. Submit SRF improper payment totals to OCFO earlier in the reporting cycle to allow OCFO the opportunity to perform quality checks on the data.

Agency Comments and OIG Evaluation

EPA agreed with the recommendations. OW staff will use the PERs, in addition to the transaction testing worksheets, to identify improper payments reflected in the final AFR. OW will also provide OCFO with the improper payments information OCFO needs to report in the final AFR earlier in the reporting cycle. The OIG believes the Agency's actions, when implemented, should address the recommendations.

Chapter 4

EPA Needs to Further Improve Grant Improper Payment Reporting

EPA did not include \$39,694 in grant improper payments when collecting the information from its IGMS Compliance and Recipient Activity database (compliance database) for the FY 2012 AFR. The OGD's interim guidance for IPERA says the grants management offices and the National Policy, Training and Compliance Division (NPTCD) share responsibilities for ensuring that the compliance database is accurate and complete to report improper payments. EPA did not always capture improper payments and recoveries in its compliance database. As a result, EPA understated grant improper payments and payment recoveries in the FY 2012 AFR.

Interim Guidance for Grant Improper Payment Reporting

In response to our report on the FY 2011 AFR, OGD issued interim guidance on April 23, 2012. The guidance states:

- Grants management offices are to ensure that the final improper payment amounts and grant closed dates are recorded in the compliance database once billing has been issued by the Las Vegas Finance Center and the grants office has received a copy of the bill.
- The NPTCD is responsible for checking the compliance database for accuracy and completeness to accurately report improper payments. The NPTCD also verifies that questioned and disallowed costs recorded in the compliance database are consistent with the actual compliance report and written decisions.

Some Grant Improper Payments Not Reported

Some improper payments discovered in a single audit and a programmatic review were not reported in EPA's FY 2012 AFR. EPA reported \$610,131 of actual grant improper payments and the recovery of \$465,462. We found an additional \$39,694 in grant improper payments that EPA should have reported as improper and recaptured (see table 3). According to IPERA, the head of the Agency shall report on all actions to detect and recover improper payments, including the amounts that are recovered, outstanding, and determined to be not collectible. However, EPA did not report \$9,694 of grant improper payments detected during a single audit review and \$30,000 detected during a programmatic review. EPA should have reported the improper payments since both reviews were closed and all the funds were recovered.

Table 3: Adjustments to Grant Improper Payments and Recoveries in EPA's FY 2012 AFR

Grantee	Type of review	Improper payment reported in AFR	Not reported	
			Improper payment	Payment recapture
Snoqualmie Tribe, Washington	Single audit	\$8,322	\$9,694	\$9,694
Apache Tribe, Oklahoma	Programmatic review	0	30,000	30,000
Total improper payment and payment recapture adjustments			\$39,694	\$39,694

Source: OIG analysis of EPA data.

Further Improvement Needed to Capture Grant Improper Payments

While OGD has issued guidance on recording improper payments, further improvements should be made. EPA only reports grant unallowed costs recorded in its compliance database as improper payments. Accurate reporting of improper payments is dependent upon relevant information being recorded in the compliance database.

- For the Snoqualmie tribe single audit, NPTCD stated that Region 10 recorded and reported final unallowed costs of \$8,322 in the database and did not report \$9,694 as unallowed. Therefore, NPTCD only reported \$8,322 of improper payments. However, EPA's Region 10 concluded in its audit close-out letter that \$9,694 of questioned travel cost was unsupported and recovered. OGD later confirmed the region should have included \$9,694 in the database as an unallowed cost.
- The results of the programmatic review for the Apache tribe of Oklahoma were not recorded in the database; therefore, the improper payment was not reported. EPA's NPTCD staff stated that its compliance database is not structured to allow programmatic staff to record unallowable costs detected during programmatic monitoring reviews. NPTCD staff explained that when issues involving grant finances arise, these issues should be referred to the appropriate grant office and award official for action. However, in this case, the award official did not record an administrative enforcement action in the compliance database.

We found that EPA did not report \$39,694 of improper payments and recoveries. As a result, grant improper payments were understated by 7 percent and recovered payments were understated by 9 percent. If EPA does not implement corrective actions and modify its guidance, improper payments detected during reviews may not be captured for reporting purposes, which may result in reporting errors.

Recommendation

We recommend that the Assistant Administrator, Office of Administration and Resources Management:

4. Determine why the errors noted occurred, implement actions to ensure accurate reporting in the Integrated Grants Management System Compliance and Recipient Activity database, and revise the OGD's interim guidance for IPERA to reflect these changes.

Agency Comments and OIG Evaluation

EPA agreed with the recommendation. OGD agreed that some improper payments were not accurately recorded in the IGMS Compliance and Recipient Activity database and has determined why these errors occurred. OGD will revise IPERA guidance to implement corrective actions, as based on the errors that occurred. The OIG believes the Agency's actions when implemented should address the recommendation.

Chapter 5

Improper Payments Reported Did Not Include Discounts Not Taken

EPA did not accurately report discounts not taken in the FY 2012 AFR. The IPERA defines improper payments to include “any payment that does not account for credit for applicable discounts.” EPA reported in the AFR that, “In FY 2012, the Agency claimed 56 percent of all offered discounts, and the remaining \$122,000 in missed discounts was determined not to be improper payments.” As stated in our report on the FY 2011 AFR, the OIG believes that based on the definition of improper payment in IPERA, applicable discounts not taken should be reported as improper payments. As a result, EPA underreported improper payments in the contracts and commodities payment streams.

EPA Disagreed With Recommendation in Prior Report

EPA did not report discounts not taken as improper payments in its FY 2011 AFR. In our report on improper payments for FY 2011, we recommended that OCFO report discounts not taken as improper payments under IPERA starting with the FY 2012 AFR, unless it receives clarification from OMB stating otherwise.⁵ EPA disagreed with the recommendation and stated that it believed there were valid reasons why certain discounts cannot be taken and should not be reported as improper payments. Agency officials stated that they may not be able to take a discount for a myriad of reasons, such as:

- Insufficient time to review invoices.
- Percentage rate offered not sufficient to generate a cost-effective discount.
- Project officer approval not available.

In responding to the final report, EPA continued to disagree with the OIG. EPA management sought guidance from OMB but did not receive any. In our final response to EPA we continued to disagree with the Agency’s position but we did not believe that the report warranted elevation to the Audit Resolution Board, due to the low-dollar value of items not reported for FY 2011.

Reporting Discounts Not Taken as Improper Payments

In the FY 2012 AFR, EPA stated that it would report discounts as improper payments, “...if the wrong percentage discount were taken or if a discount were taken beyond the specified discount period.” This definition severely limits when a discount not taken would be considered an improper payment. EPA provided

⁵ OIG report *EPA Can Improve Its Improper Payments Reporting*, Report No. 12-P-0311 (March 1, 2012)

the following examples in the AFR to explain why it does not report discounts not taken as improper payments.

There are certain situations beyond the Agency’s control that may prevent EPA from taking a discount. Since these situations are beyond the Agency’s control, EPA does not consider them to be improper payments. For example, the late receipt of an invoice from the vendor could prevent the Agency from claiming the discount within the specified discount period. Similarly, project officers are required to conduct their due diligence by thoroughly reviewing invoices and are sometimes unable to approve an invoice before the discount period expires.

While late submission of invoices by the vendor may not be within the EPA’s control, project officer review is within the Agency’s control. While IPERA defines improper payment as “any payment that does not account for credit for applicable discounts,” it does not distinguish whether the reason for not taking the discount is within an agency’s control. As a result, the OIG continues to believe that applicable discounts not taken should be reported as improper payments.

Discounts Not Taken Because of Transmission Problems

Our current review found an example of a situation that supports the OIG’s position that discounts not taken should be reported as improper payments. We identified five payments totaling \$1,370, where discounts were not taken and were not reported as improper payments because the Agency believed that it paid the right amount to the right vendor (see table 4).

Table 4: Missed opportunities for discounts to be taken

Barcode number	Discount not taken	Reason discount not taken
B2093905989	\$134	The invoice was processed and certified, and should have been paid on time. However, when EPA implemented its new financial system, schedule issues occurred so that the discount could not be taken when the schedule reached the U.S. Department of the Treasury.
B2093947859	615	When the invoice was processed, it was within the 20 days offered; but when the invoice was actually paid by Treasury, the 20 days had expired and the discount was not taken.
B2094340727	15	This vendor offered a discount if the invoice was paid in 10 days. EPA took 9 days to process the invoice, but by the time Treasury paid the invoice the discount period had expired.
B2094236396	566	Invoice was processed and certified in time, but when Treasury processed the payment the discount period had expired. Based on the date of payment, it appears there were issues getting the schedule to Treasury.
B2094045912	40	The discount had expired when the invoice was transmitted to Treasury.
Total	\$1,370	

Source: OIG-generated table based on EPA data.

The reason discounts were not taken was within EPA’s control. EPA was not able to take the discounts because of coding errors and delays in transmitting payment information to the Department of the Treasury. The transmission of data to Treasury is within EPA’s control, and when the transmission is not timely and discounts cannot be taken, they should be reported as improper payments. As stated in the 2010 presidential memorandum on improper payments, thorough identification of improper payments promotes accountability at federal agencies. OMB also encouraged agencies to identify the root causes of their improper payments and implement corrective actions that prevent future improper payments. EPA should be identifying and reporting discounts not taken as improper payments that result from errors within EPA’s control, in order to promote accountability and to serve as a basis for identifying issues that need to be corrected.

Error in Reporting Discounts Not Taken

EPA found during our audit that \$4,149 of the \$122,000 in discounts not taken were reported in error, as shown in table 5. For contracts, EPA included \$77,693 as part of the discounts not taken total. However, during the audit, EPA finance center staff determined that four invoices, totaling \$4,149, should not have been included because EPA did take the appropriate discounts. When the programmers corrected financial management system coding problems and reports, the total discounts not taken were revised. The contracts report dated December 12, 2012, was adjusted to correct coding issues with the financial management system.

Table 5: Contract invoices

Barcode Number	Amount
B2093962722	\$470
B2093957391	1,203
B2094316890	804
B2095327086	1,672
Total	\$4,149

Source: OIG-generated table based on EPA data.

Office of General Counsel Opinion

OCFO sought an opinion from EPA’s Office of General Counsel (OGC) concerning whether IPERA required the reporting of “all” discounts not taken. OGC opined that the term “applicable discount” does not equate to “all discounts.” While the OGC opinion is helpful in demonstrating why EPA would not necessarily report all discounts not taken as improper payments, the opinion does not address whether the specific circumstances the Agency cited in responding to the OIG’s previous report would warrant not reporting those discounts not taken as improper payments. OGC suggests that “applicable discount” should be defined in light of OMB’s Prompt Payment Act regulation at 5 CFR Part 1315, which provides in pertinent part that “[i]f an agency is offered a

discount by a vendor, whether stipulated in the contract or offered on an invoice, an agency may take the discount if economically justified ... but only after acceptance has occurred.” 5 CFR Part 1315.7(a). Thus OGC suggests that only if a discount is offered and economically justified is it then “applicable”; and thus if not taken, then it should be reported as an improper payment. We do not necessarily endorse this interpretation, and believe it prudent for the Agency to consult with OMB on its views on interpreting this term. However, if the Agency wishes to adopt that interpretation, then it should reevaluate the position it took when responding to the OIG report on the 2011 AFR.

Recommendations

We recommend that the Chief Financial Officer:

5. Develop specific guidance to define “applicable discounts” for IPERA reporting purposes.
6. Include any payment that does not account for credit for an applicable discount as an improper payment in EPA’s FY 2013 AFR.

Agency Comments and OIG Evaluation

EPA agreed with the recommendations. OCFO’s Research Triangle Park Finance Center will update existing Improper Payment Standard Operating Procedures to include specific guidance to define “applicable discounts” for IPERA reporting purposes. Also, the OCFO will include improper payments as defined in the Improper Payment Standard Operating Procedures in the EPA’s FY 2013 AFR. The OIG believes the Agency’s actions, when implemented, should address the recommendations.

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	5	Within 90 days prepare a report for the Administrator to submit to Congress and include the elements described in IPERA Section 3(c) in the report.	O	Chief Financial Officer	6/15/2013		
2	10	Require staff to use the PERs, in addition to the transaction testing worksheets, to identify improper payments.	O	Assistant Administrator, Office of Water	11/15/2013		
3	10	Submit SRF improper payment totals to OCFO earlier in the reporting cycle to allow OCFO the opportunity to perform quality checks on the data.	O	Assistant Administrator, Office of Water	9/1/2013		
4	13	Determine why the errors noted occurred, implement actions to ensure accurate reporting in the Integrated Grants Management System Compliance and Recipient Activity database, and revise the OGD's interim guidance for IPERA to reflect these changes.	O	Assistant Administrator, Office of Administration and Resources Management	6/30/2013		
5	17	Develop specific guidance to define "applicable discounts" for IPERA reporting purposes.	O	Chief Financial Officer	4/19/2013		
6	17	Include any payment that does not account for credit for an applicable discount as an improper payment in EPA's FY 2013 AFR.	O	Chief Financial Officer	11/15/2013		

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 February 22, 2013)

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report/Project No. OA-FY13-0055
“Corrective Action Plan Needed in Order to Fully Comply with Improper
Payments Elimination and Recovery Act,” dated February 7, 2013

FROM: Barbara J. Bennett /s/ *Original Signed By Maryann Froehlich for:*
Chief Financial Officer

TO: Arthur A. Elkins, Jr.
Inspector General

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

AGENCY’S OVERALL POSITION

The agency concurs with all six recommendations and views the issue of non-compliance as a technical interpretation of IPERA.

AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by FY
1	The Chief Financial Officer, within 90 days of the determination of non-compliance, prepare a report for the Administrator to submit to Congress that includes the elements described in Improper Payment Elimination Recovery Act Section 3(c).	1.1 The Office of the Chief Financial Officer will prepare a report for the Administrator to submit to Congress that includes the elements described in IPERA Section 3(c) within 90 days of the determination of non-compliance.	6/15/2013
2	The Assistant Administrator, Office of Water, require staff	2.1 The EPA concurs with this recommendation. OW staff will use the	11/15/2013 (ongoing)

	to use the Program Evaluation Reports, in addition to the transaction testing worksheets, to identify improper payments.	PERs, in addition to the transaction testing worksheets, to identify improper payments reflected in the final AFR.	
3	The AA of OW, submit State Revolving Fund improper payment totals to the Office of the Chief Financial Officer earlier in the reporting cycle to allow OCFO the opportunity to perform quality checks on the data.	3.1 The EPA concurs with this recommendation. OW will provide OCFO with the improper payments information it needs to report in the final AFR earlier in the reporting cycle.	9/1/2013 (ongoing)
4	The AA of Office of Administration and Resources Management, determine why the errors noted occurred, implement actions to ensure accurate reporting in the Integrated Grants Management System Compliance and Recipient Activity database, and revise the Office of Grants and Debarment's Interim Guidance for IPERA to reflect these changes.	4.1 OGD agrees that some improper payments were not accurately recorded in the IGMS Grantee Compliance and Recipient Activity database and has determined why these errors occurred. 4.2 OGD will revise IPERA guidance to implement corrective actions, as based on 4.1 above.	2/7/2013 (completed) 6/30/2013
5	The CFO develop specific guidance to define "applicable discounts" for IPERA reporting purposes.	5.1 OCFO's Research Triangle Park-Finance Center will update existing Improper Payment Standard Operating Procedures to include specific guidance to define "applicable discounts" for IPERA reporting purposes.	4/19/2013
6	The CFO include any payment that does not account for credit for an applicable discount as an improper payment in EPA's FY 2013 Agency Financial Report.	6.1 OCFO will include improper payments as defined in 5.1 above in the EPA's FY 2013 AFR.	11/15/2013

CONTACT INFORMATION

If you have any questions regarding this response, please contact Stefan Silzer, Director of the Office of Financial Management on (202) 564-5389 or Andrew LeBlanc of the Program Costing Staff on (202) 564-1761.

Attachment

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