



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

U.S. Chemical Safety and Hazard Investigation Board Complied With Reporting Requirements of the Improper Payments Elimination and Recovery Act

Report No. 13-P-0177

March 12, 2013



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Report Contributors:

Marcia Hirt-Reigeluth
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Abbreviations

BPD	Bureau of the Public Debt
CSB	U.S. Chemical Safety and Hazard Investigation Board
FY	Fiscal year
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

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At a Glance

Why We Did This Review

The Office of Management and Budget's (OMB's) guidance for implementation of the 2010 Improper Payments Elimination and Recovery Act (IPERA) specified responsibilities of agencies and inspectors general. Agencies are required to report on improper payments, and inspectors general are required to determine whether the agency complies with IPERA. As the inspector general for the U.S. Chemical Safety and Hazard Investigation Board (CSB), the U.S. Environmental Protection Agency Office of Inspector General undertook this review of CSB's compliance with IPERA.

This report addresses the following CSB Goal:

- *Preserve the public trust by maintaining and improving organizational excellence.*

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/2013/20130312-13-P-0177.pdf

U.S. Chemical Safety and Hazard Investigation Board Complied With Reporting Requirements of the Improper Payments Elimination and Recovery Act

What We Found

CSB is fully compliant with the reporting requirements of IPERA, which require all agencies to periodically review all programs and activities that may be susceptible to significant improper payments. As required, CSB has published its fiscal year 2012 Performance and Accountability Report on its website, and we have determined that CSB programs do not meet the minimum risk assessment threshold that would require the CSB to perform a risk assessment. OMB Memorandum M-11-16, Part I B, requires agencies to make a determination on cost effectiveness of performing recovery audits on those activities that expend \$1 million or more annually. In February 2012, CSB performed an analysis, as stipulated in the OMB memorandum, and found that it would not be cost effective to perform recovery audits.

In evaluating the accuracy and completeness of CSB's reporting and performance in preventing, reducing, and recapturing improper payments, we determined that CSB should improve its review of the Bureau of the Public Debt's (BPD's) testing results of CSB's improper payments. BPD provides reimbursable administrative and information technology services to government agencies through its Administrative Resource Center. In addition, BPD helps government agencies reduce the number of improper payments issued. CSB considers improper payments a low-risk item and relies on BPD to ensure payments are correct. BPD has a performance metric of less than 1 percent for improper payments for all of its customer agencies, which is stated in its interagency agreement with CSB. Although the amount may be minimal, CSB should have knowledge of BPD's analysis for improper payments and whether these improper payments are correctly handled by BPD.

Recommendation and Planned Corrective Action

We recommended that the CSB Chairperson receive and review the results of BPD's testing for CSB improper payments on, at a minimum, a semiannual basis. CSB concurred with our recommendation and stated that BPD will be providing its testing results to CSB every 6 months, although the actual start date for when this will commence has not been provided. Until CSB establishes a date to begin review of BPD's testing for CSB improper payments, the recommendation remains unresolved. We evaluated CSB's intended planned action for this recommendation and concluded that the planned action should correct the concern identified.



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

THE INSPECTOR GENERAL

March 12, 2013

The Honorable Rafael Moure-Eraso, Ph.D.
Chairperson and Chief Executive Officer
U.S. Chemical Safety and Hazard Investigation Board
2175 K Street, NW, Suite 400
Washington, D.C. 20037-1809

Dear Dr. Moure-Eraso:

This is our report on the U.S Chemical Safety and Hazard Investigation Board's (CSB's) compliance with reporting requirements of the Improper Payments Elimination and Recovery Act. This report represents the final position of the Office of Inspector General (OIG) on the subject reported. It contains a finding that describes the issues the OIG has identified and the corrective action the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final CSB position. CSB managers will make the final determinations on matters in this report.

The Improper Payments Elimination and Recovery Act and Office of Management and Budget guidance require the OIG to distribute this report to the following individuals and organizations:

- The Senate Homeland Security and Government Affairs Committee.
- The House Committee on Oversight and Governmental Reform.
- The Comptroller General.
- The Controller of the Office of Management and Budget.

We are providing the report to these individuals and organizations under a separate transmittal.

In responding to the draft report, the Board provided its intended corrective action for addressing the recommendation but did not provide a milestone for completion. Therefore, a response to the final report is needed within 60 days. We will post this report to our website 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 Audit, at (202) 566-0899 or heist.melissa@epa.gov; or Michael Davis, Director, at (513) 487-2363 or davis.michaeld@epa.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", written in a cursive style.

Arthur A. Elkins Jr.

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Purpose

The Improper Payments Elimination and Recovery Act (IPERA) became law on July 22, 2010, amending the Improper Payments Information Act of 2002 (IPIA).¹ On April 14, 2011, the Office of Management and Budget (OMB) issued government-wide guidance for implementation.² The guidance updated the requirements for measuring and remediating improper payments. The OMB guidance requires agencies to report on improper payments and requires inspectors general to review agency reporting. The U.S. Environmental Protection Agency's Office of Inspector General (OIG) is the inspector general for the U.S. Chemical Safety and Hazard Investigation Board (CSB). Our objective for this review was to determine whether CSB complies with IPERA.

Background

IPERA requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments. The Act significantly increased requirements for payment recapture efforts by expanding the types of payments that could be reviewed. It also lowered to \$1 million the threshold of annual outlays for each program and activity for which agencies are required to conduct recovery audits, if the agency determines that conducting such audits would be cost effective.

IPERA defines an improper payment, in relevant part, as any payment that should not have been made or that was made in an incorrect amount, any payment to an ineligible recipient for an ineligible good or service, a duplicate payment, a payment for a good or service not received, or a payment that does not account for credit for applicable discounts. OMB Memorandum M-11-16 expanded the improper payment definition to include payments without sufficient documentation. Under OMB Memorandum M-11-04,³ agencies are to report on improper payments that are:

- Voluntarily returned by contractors.
- Used to offset future payments.
- Identified and returned to the agency through OIG efforts, such as audits, reviews, or tips from the public.
- Identified and recovered through management post payment reviews and close-out.

¹ In OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, issued April 14, 2011, the term "IPIA" implies "IPIA, as amended by IPERA," but the authorizing legislation is still named IPIA.

² OMB April 14, 2011, Memorandum M-11-16, revised OMB Circular A-123 Parts I and II.

³ OMB Memorandum M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, issued November 16, 2010, provides guidance on expanding the types of payments that can be reviewed and lowering the threshold of annual outlays that requires agencies to conduct payment recapture audit programs.

Each fiscal year, an agency's inspector general is required to determine whether the agency complies with IPERA. Compliance means that the agency has:

- Published a Performance and Accountability Report (PAR) for the most recent fiscal year and posted it on the agency website.
- Identified programs and activities that are susceptible to significant improper payments—defined as gross improper payments exceeding 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or \$100 million—and conducted a specific risk assessment for each identified program.
- Determined the cost effectiveness of conducting recovery audits on each program and activity of the agency that expends \$1 million or more annually.

If an agency does not meet one or more of these requirements, it is not compliant. The inspector general is required to evaluate (1) the accuracy and completeness of agency reporting; and (2) agency performance in preventing, reducing, and recapturing improper payments. The inspector general should include any recommendations to improve the agency's performance in reducing improper payments.

The Bureau of the Public Debt (BPD) provides reimbursable administrative and information technology services to government agencies through its Administrative Resource Center. In addition, BPD helps government agencies reduce the number of improper payments issued. CSB has an interagency agreement with the BPD. Under this agreement, the BPD processes financial transactions, makes administrative payments, and prepares various financial reports for the CSB.

Scope and Methodology

We conducted this compliance audit from December 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether CSB is compliant with IPERA, we reviewed CSB's FY 2012 PAR and accompanying materials. We interviewed CSB's Director of Financial Operations to gain an understanding of what actions CSB took to comply with IPERA. We also reviewed CSB's interagency agreement with BPD to obtain a better understanding of the division of financial responsibilities between the two agencies.

Results of Review

CSB is fully compliant with the reporting requirements of IPERA, which require all agencies to periodically review all programs and activities that may be susceptible to significant improper payments. As required, CSB has published its PAR on its website, and we have determined that CSB programs do not meet the minimum risk assessment threshold that would require CSB to perform a risk assessment. OMB Memorandum M-11-16, Part I B, requires agencies to make a determination on cost effectiveness of performing recovery audits on those activities that expend \$1 million or more annually. In February 2012, CSB performed an analysis, as stipulated in the memorandum, and found that it would not be cost effective to perform recovery audits.

In evaluating the accuracy and completeness of CSB's reporting and performance in preventing, reducing, and recapturing improper payments, we determined that CSB should improve its review of BPD's testing results of improper payments. CSB considers improper payments a low-risk item and relies on BPD to ensure payments are correct. Although the amount may be minimal, CSB should have knowledge of BPD's analysis for improper payments and whether they are correctly handled by BPD.

CSB Complies With IPERA

IPERA requires all agencies to publish and post on their website the PAR for their most recent fiscal year. The PAR, as described by OMB Circular A-11, Section 200.12, is a consolidated annual report of agency performance and financial results, containing the agency's audited financial statements and detailed information on efforts to achieve goals during the past fiscal year.

In its November 2012 PAR for FY 2012, CSB stated:

The CSB has not identified any significant risk with improper payments. However, we recognize the importance of maintaining adequate internal controls to ensure proper payments, and our commitment to the continuous improvement in the overall disbursement management process remains strong. In FY 2012, the CSB continued our agreement with the Bureau of the Public Debt (BPD) to process financial transactions, make administrative payments, and prepare various financial reports. This agreement promotes the accuracy of our financial records and payments.

Based on our review, we determined that CSB is compliant with this requirement of IPERA.

IPERA also requires all agencies to conduct a specific risk assessment for each program or activity that may have improper payments in excess of \$10 million of

all program or activity payments made during the fiscal year reported and 2.5 percent of program outlays. IPERA Section 2(f)(3) defines a payment as any transfer or commitment for future transfer of federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any nonfederal person or entity that is made by a federal agency, a federal contractor, a federal grantee, or a governmental or other organization administering a federal program or activity. Interagency agreements and payroll and benefits made to federal agencies or employees, are excluded from consideration as a susceptible program or activity.

For CSB, pursuant to IPERA Section 2(f)(3), only nonfederal expenses are eligible for consideration as a susceptible program or activity because they are payments made to a nonfederal person or entity. CSB’s FY 2012 budget of \$11,129,165 is shown in table 1 below.

Table 1: CSB FY 2012 budget

Activity	Amount	Percentage
Federal expenses	\$7,424,909	66.72%
Nonfederal expenses	3,704,256	33.28%
Total	\$11,129,165	100.00%

Source: OIG analysis of CSB data.

Since CSB’s FY 2012 budget for nonfederal expenses was less than \$10 million, CSB’s nonfederal expenses did not meet the minimum dollar threshold for a risk assessment.

IPERA Section 2(h)(2)(A) requires that “... the head of each agency shall conduct recovery audits with respect to each program and activity of the agency that expends \$1,000,000 or more annually if conducting such audits would be cost-effective.” OMB Memorandum M-11-16, Part I B, implements the requirements of Section 2(h) of IPERA. The OMB memorandum defines a payment recapture audit, also known as a recovery audit, as a review and analysis of an agency’s or program’s accounting and financial records, supporting documentation, and other pertinent information supporting its payments, that is specifically designed to identify overpayments. A payment recapture audit program is an agency’s overall plan for risk analysis and the performance of payment recapture audits and recovery activities. The agency head should determine the most cost-effective way to conduct payment recapture activities. These activities should include a management improvement program, if appropriate, and a copy of the program provided to the agency’s inspector general annually.

According to OMB, a cost-effective payment recapture audit program is one in which the benefits (i.e., recaptured amounts) exceed the costs (e.g., staff time and resources, or payments to an audit contractor) associated with implementing and overseeing the program. Agencies should consider the following criteria in determining whether a payment recapture audit is cost effective:

- The likelihood that identified overpayments will be recaptured.
- The likelihood that the expected recoveries will be greater than the costs incurred to identify the overpayments.

If an agency determines that it would be unable to perform a cost-effective payment recapture audit program for activities expending more than \$1 million annually, it should notify OMB and the inspector general of this decision and provide them with the analysis used to reach this decision. The agency should also report in its annual PAR:

- A list of programs and activities for which it has determined that a payment recapture audit program would not be cost effective.
- A description of the justifications and analysis that it used to make that determination.

In February 2012, CSB provided an analysis to determine the cost effectiveness of performing recapture audits on all activities with annual outlays in excess of \$1 million. CSB concluded that a recapture audit program would not be cost effective and notified OMB. OMB did not reply to CSB on its analysis.

In its November 2012 PAR for FY 2012, CSB stated:

Finally, in FY 2012, in accordance with OMB guidance, the CSB conducted an analysis to determine the cost effectiveness of performing recapture audits on all activities with annual outlays in excess of \$1,000,000. The CSB concluded that a recapture audit program would not be cost effective.

OMB Memorandum M-11-16, Part I B, requires that agencies make a determination on cost effectiveness at least once every 3 years. CSB made its determination in February 2012, which complies with the IPERA requirement for FY 2012. CSB should plan to conduct its next analysis to determine the cost effectiveness of performing recapture audit on all activities with annual outlays in excess of \$1 million no later than FY 2015.

CSB Needs to Review Results of BPD's Testing for Improper Payments

OMB Circular A-123, *Management's Responsibility for Internal Control*, Section I, states:

[m]anagement is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to

meet its objectives, would be prevented or detected in a timely manner.

Section III identifies the IPIA of 2002 as one of the statutory requirements that should be part of an agency's internal control framework. IPIA requires agencies to identify activities and programs that might be susceptible to significant improper payments. It states:

[a]gencies must annually submit estimates of improper payments, corrective actions to reduce the improper payments, and statements as to whether its current information systems and infrastructure can support the effort to reduce improper payments.

CSB has continued its agreement with the BPD to process financial transactions, make administrative payments, and prepare various financial reports. CSB relies on the BPD to perform all of the necessary testing and analysis required for identifying any possible improper payments. BPD has a performance metric of less than 1 percent for improper payments for all of its customer agencies, which is stated in its interagency agreement with CSB. In addition, BPD performs a random sampling once a month of accounts payable invoices that are equal to or less than \$2,500 and are not subject to a secondary review prior to being scheduled for payment. BPD's policy requires any accounts payable invoice greater than \$2,500 to undergo a secondary review. BPD's testing results are on its website; however, the results are not listed by each of its customers.

From our review of BPD's website, we cannot confirm whether CSB has any improper payment transactions for FY 2012. In addition, CSB does not review, and BPD does not provide, any results of its testing related to CSB's improper payment performance through its agreement. In accordance with OMB Circular A-123, CSB should confirm that BPD performs the test for its improper payments, as stated in the terms of the agreement, and review the results to meet its responsibility for maintaining effective internal controls.

CSB noted:

- BPD receives unqualified opinions on its annual financial statement audit reports, which gives CSB a high degree of confidence in BPD's work.
- During the course of financial audits, CSB talks with auditors who travel to BPD, interview the staff, and review their procedures and documents.
- The financial auditors consistently report to CSB that both BPD's staff and work quality are outstanding.
- Improper payments are a low-risk item that is handled competently and, therefore, verification of BPD work is not necessary.
- If BPD found an improper payment was made, it would inform CSB so that CSB could take appropriate action regarding the improper payment and avoid future improper payments.

- BPD receives annual reviews in accordance with the Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization, which provide its customer agencies with independent verification that BPD's controls, including disbursement controls, are in place and are operating effectively.

Recommendation

We recommend that the Chairperson, U.S. Chemical Safety and Hazard Investigation Board:

1. Receive and review the results of BPD's testing for CSB improper payments on, at a minimum, a semiannual basis.

CSB Response and OIG Evaluation

CSB concurred with our recommendation and stated that BPD will be providing its testing results to CSB every 6 months. CSB has not provided a milestone for completion. Until CSB establishes a date to begin review of BPD's testing for CSB improper payments, this recommendation remains unresolved. We evaluated CSB's intended planned action for this recommendation and concluded that the planned action should correct the concern identified.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATION						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	7	Receive and review the results of BPD's testing for CSB improper payments on, at a minimum, a semiannual basis.	U	Chairperson, U.S. Chemical Safety and Hazard Investigation Board			

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

CSB Response

U.S. Chemical Safety and Hazard Investigation Board

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Rafael Moure-Eraso, Ph.D.
Chairperson

Mark Griffon
Board Member

Beth J. Rosenberg, ScD, MPH
Board Member



March 4, 2013

Melissa M. Heist
Assistant Inspector General for Audits
Office of Inspector General
U.S. Environmental Protection Agency
Washington, DC 20460

Dear Ms. Heist:

Thank you for the opportunity to review and comment on the draft report on the CSB's compliance with the Improper Payments Elimination and Recovery Act (IPERA). We are pleased that you found CSB fully compliant with IPERA's reporting requirements.

The draft report states that the CSB should improve its review of the Bureau of the Public Debt's (BPD's) testing results of improper payments. However, the draft does not acknowledge that BPD, a shared service provider, receives annual reviews in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This review gives the CSB and other customer agencies independent verification that BPD's controls, including disbursement controls, are in place and are operating effectively. The most recent report is publically available at <https://arc.publicdebt.treas.gov/docs/OIG12068.pdf>.

CSB is comfortable relying on the independent auditors' report that found BPD's controls are in place and effective, but your office is recommending that CSB also receive and review the results of BPD's testing for CSB improper payments on, at a minimum, a semiannual basis. While we do not think this level of review is necessary, BPD will start providing us with their testing results every six months.

Finally, BPD asked that we clarify with you that the 1% metric mentioned in several places in your draft report is a measure for all customer agencies and is not calculated at the individual customer level. If you or your staff have any questions about this response, please feel free to contact Anna Brown, Audit Liaison, at 202-261-7639.

Sincerely,

A handwritten signature in cursive script, enclosed in a dashed rectangular box. The signature appears to read "Rafael Moure-Eraso".

Rafael Moure-Eraso, Ph.D.
Chairperson

Distribution

Chairperson and Chief Executive Officer, U.S. Chemical Safety and Hazard Investigation Board
Managing Director, U.S. Chemical Safety and Hazard Investigation Board
Deputy Managing Director, U.S. Chemical Safety and Hazard Investigation Board
Counselor to the Chair, U.S. Chemical Safety and Hazard Investigation Board
Director of Financial Operations, U.S. Chemical Safety and Hazard Investigation Board
Director of Administration, U.S. Chemical Safety and Hazard Investigation Board