U.S. Chemical Safety and Hazard Investigation Board Did Not Comply With the Do Not Pay Requirements for Improper Payments

Report No. 14-P-0172

April 10, 2014
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Gloria Taylor-Upshaw
Michael Davis

Abbreviations

BFS Bureau of the Fiscal Service
CSB U.S. Chemical Safety and Hazard Investigation Board
FY Fiscal year
IBC Interior Business Center
IPERA Improper Payments Elimination and Recovery Act
IPERIA Improper Payments Elimination and Recovery Improvement 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

Office of Management and Budget guidance requires agencies to report on improper payments and Inspectors General to review agency reporting for compliance. The Improper Payments Information Act of 2002 was created to provide estimates and reports of improper payments. The Improper Payments Elimination and Recovery Act of 2010 specified agency and Inspector General responsibilities. The Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 intensifies efforts to identify, prevent and recover improper payments. As the Inspector General for the U.S. Chemical Safety and Hazard Investigation Board (CSB), the U.S. Environmental Protection Agency’s Office of Inspector General undertook this audit of CSB’s compliance with the three reporting requirements for improper payments.

This report addresses the following CSB goal:

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

For further information, contact our public affairs office at (202) 566-2391.

The full report is at: www.epa.gov/oig/reports/2014/20140410-14-P-0172.pdf

U.S. Chemical Safety and Hazard Investigation Board Did Not Comply With the Do Not Pay Requirements for Improper Payments

What We Found

CSB is not compliant with the IPERIA of 2012 Section 5(a)(1) reporting requirement to review prepayment and pre-award procedures and ensure that a thorough review of available databases occurs to prevent improper payments before the release of any federal funds. Specifically, CSB does not use the Do Not Pay portal and does not have any provisions for testing its payroll and benefits prepayments. In response to our draft report, CSB informed us they have established access to the Do Not Pay portal.

CSB is compliant with the remaining reporting requirements. As required, CSB has published its Performance and Accountability Report and financial statements on its website. We determined that CSB programs do not meet the minimum dollar threshold that would require CSB to perform a risk assessment of its programs and activities that are susceptible to significant improper payments. CSB performed an analysis justifying that it would not be cost effective to perform a recovery audit on CSB’s programs and activities for which it expends $1 million or more annually.

In our analysis of CSB’s reporting and performance to prevent, reduce and recapture improper payments, we found that CSB needs to improve its controls over testing improper payments. CSB considers improper payments a low risk item and relies on the Department of the Treasury’s Bureau of the Fiscal Service to test payments for correctness. CSB receives and reviews the Bureau of the Fiscal Service’s limited testing of improper payments but does not track actual improper payments or document its review of the Bureau of the Fiscal Service’s testing.

Recommendations and Corrective Actions

We recommend that the CSB Chairperson:

1. Establish access to the Do Not Pay portal and use that portal.
2. Ensure CSB’s payroll benefits go through the portal to comply with IPERIA of 2012. Also, track and document reviews of improper payments to help prevent or eliminate future improper payments.
3. Document its analysis of the Bureau of the Fiscal Service’s reports on its testing and ensure increased testing is implemented to reduce the risk that some improper payments go undetected.

CSB concurred with our first recommendation and partially agreed with our third recommendation. We are working to resolve our second recommendation. CSB’s entire response is included as appendix A.
April 10, 2014

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 an audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency. This report represents our final position on our review of the reporting of improper payments by the U.S. Chemical Safety and Hazard Investigation Board (CSB). The report contains findings that describe the issues the OIG has identified and corrective actions 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 Inspector General to distribute this report to the following individuals and organizations:

- Office of Management and Budget.
- Senate Homeland Security and Government Affairs Committee.
- House Committee on Oversight and Government Reform.
- U.S. Comptroller General.

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

In responding to the draft report, CSB concurred with recommendation 1, did not concur with recommendation 2, and partially concurred with recommendation 3. Although CSB agreed with some of the recommendations, it did not provide corrective actions for addressing the recommendations. 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 Kevin Christensen, acting Assistant Inspector General for Audit, at (202) 566-0565 or christensen.kevin@epa.gov; or Michael Davis, Director, at (513) 487-2363 or davis.michaeld@epa.gov.

Sincerely,

Arthur A. Elkins Jr.
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Purpose

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) was signed into law on January 10, 2013, amending the Improper Payments Information Act (IPIA) of 2002 and the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA became law on July 22, 2010. On April 14, 2011, the Office of Management and Budget (OMB) issued governmentwide guidance for implementation. 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 was to determine whether CSB complies with IPIA of 2002, IPERA of 2010 and IPERIA of 2012.

Background

Each fiscal year, agency Inspectors General are required to determine whether the agency complies with improper payment requirements as noted in IPIA of 2002, IPERA of 2010 and IPERIA of 2012. Compliance means that the agency has done the following (if required):

- Published a Performance and Accountability Report (PAR) for the most recent fiscal year and posted it on the agency website along with its annual financial statements.
- 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.
- Conducted a review of its prepayment and pre-award procedures, and reviewed available databases with relevant information before the release of any federal funds.

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

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1 OMB April 14, 2011, Memorandum M-11-16 revised OMB Circular A-123 Parts I and II.
2 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.
recommendations to improve the agency’s performance in reducing improper payments.

IPERA of 2010 requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments. According to OMB, 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 conducting such audits would be cost effective. IPERA also 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, or 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, agencies are to report on improper contract payments:

- 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.

IPERIA of 2012 requires agencies, as part of the Do Not Pay Initiative, to review their prepayment and pre-award procedures, and review available databases (data sources within the Do Not Pay portal) with relevant information before the release of any federal funds. IPERIA also requires OMB to provide guidance to agencies to include all improper payments in their estimates, including those payments recovered or in the process of being recovered, and includes payments to employees in their estimates.

CSB has two interagency agreements with the following organizations that handle CSB’s financial transactions as well as its payroll and processing procedures:

- Department of the Treasury’s Bureau of the Fiscal Service (BFS), Administrative Resource Center: CSB has continued its interagency agreement with BFS to process financial transactions, make administrative payments and prepare various financial reports. As part of that agreement,

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3 OMB Memorandum M-11-04, Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits, issued November 16, 2010, serves as interim guidance for the broader program of payment recapture audits established under IPERA. IPERA 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.
CSB relies on BFS to perform all the necessary testing required for identifying any possible improper payments.

- Department of the Interior’s Interior Business Center (IBC), formerly the National Business Center: CSB’s interagency agreement with IBC is to provide an array of payroll and personnel processing applications and services, and human resources and human capital services.

Scope and Methodology

We conducted this compliance audit from December 2013 to February 2014 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 the CSB is compliant with the improper payment requirements, we reviewed the CSB’s fiscal year (FY) 2013 PAR and accompanying materials. We interviewed CSB to gain an understanding of what actions CSB took to comply with the requirements. We reviewed the CSB’s interagency agreements with BFS and IBC to obtain a better understanding of the division of financial responsibilities between the agencies regarding improper payments. We held discussions, exchanged emails, and requested information from BFS and IBC staff. We also reviewed CSB’s implementation of our prior year audit recommendation concerning receiving and reviewing the results of BFS’s testing for CSB’s improper payments on a semiannual basis.

Results of Review

CSB is not compliant with the IPERIA of 2012 Section 5(a)(1) reporting requirement to review prepayment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs to determine program and award eligibility and prevent improper payments before the release of any federal funds. Specifically, CSB does not use the Do Not Pay portal, and does not have any provisions for testing its payroll and benefits prepayments. In response to our draft report, CSB stated it has established access to the Do Not Pay portal.

CSB is compliant with the remaining reporting requirements, which requires all agencies to review periodically all programs and activities that may be susceptible to significant improper payments. As required, CSB has published its PAR and financial statements on its website. We determined that CSB programs do not meet the minimum dollar threshold that would require CSB to perform a risk assessment of its programs and activities susceptible to significant improper payments. CSB performed an analysis justifying that it would not be cost
effective to perform a recovery audit on CSB’s programs and activities for which it expends $1 million or more annually.

In our analysis of CSB’s reporting and performance to prevent, reduce and recapture improper payments, we found that CSB needs to improve its controls over testing improper payments. CSB considers improper payments a low risk item and relies on BFS to test payments for correctness. CSB receives BFS’s quarterly reports and stated that it reviews but does not document its review of BFS’s improper payment testing.

**CSB Is Not Compliant With the Do Not Pay Initiative Requirement for Improper Payments**

CSB has not established access to the Do Not Pay portal, and its interagency agreement with IBC did not have any provisions for testing payroll and benefits prepayments. IPERIA of 2012 requires the use of the Do Not Pay portal before issuing any payments and awards. To comply with IPERIA and prevent improper payments in the future, CSB needs to get access to the Do Not Pay portal and ensure its payroll and benefits go through the portal prior to the release of federal funds. In response to our draft report, CSB stated they have established access to the Do Not Pay portal.

CSB stated that it began the implementation of the Do Not Pay portal requirement in December 2013 and currently its contracting officers ensure potential vendors are eligible for payments by searching the System for Award Management prior to award. The System for Award Management is the official government system that consolidates the governmentwide acquisition and award support systems into one new system to make the process of doing business with the government more efficient. It consolidates nine systems, which includes the Contractor Performance Assessment Reporting System and Excluded Parties List System.

From our review of CSB’s interagency agreement with IBC, we found that it did not have any provisions for testing CSB’s payroll and benefits prepayments. CSB believes that IBC has Do Not Pay checks in its processes prior to payroll payments. However, CSB had not received confirmation from IBC of its portal usage prior to our report. IBC told us that it does not test CSB’s payroll for improper payments and specifically stated, “[s]ince the [i]mproper [p]ayment reviews are to be performed at the agency’s program level, there is no improper payment review performed at the IBC related to payroll processing.”

IPERIA of 2012 Section 5(a)(1) requires each agency to review prepayment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs to determine program or award eligibility and prevent improper payments before the release of any federal funds.

CSB informed us that its payroll system has many controls prior to timesheets going to IBC for payment. Also, CSB stated it performs post payment reviews by
comparing the data to the operating budget, and when it sees that an employee received an incorrect payment it notifies IBC so that a collection or additional payment can be set up for the employee. However, CSB could not confirm that IBC used the Do Not Pay portal to perform any prepayment testing of its payroll and benefit payments. We believe CSB needs to establish access to the Do Not Pay portal and ensure its payroll and benefits go through the portal to help prevent and eliminate the need to create disbursements or accounts receivables. In addition, CSB needs to track and document reviews of improper payments to support its estimates and improve its controls. By not establishing access to the portal and tracking improper payments, CSB may not be aware of the significance of its improper payments.

In response to our draft report, CSB stated they have now established access to the Do Not Pay portal. CSB stated that according to OMB, their payroll and benefit payments comply with IPERIA. Also, they stated that a formal tracking of improper payments is not an efficient or effect manner to address the infrequent problems CSB has experienced. We agree that BFS utilizes the Do Not Pay portal; however, no one at IBC has confirmed its compliance with Do Not Pay requirements. Furthermore, if payments are not tracked, there is no device to show that improper payments are infrequent.

**CSB Complies With PAR and Financial Statement Requirement for Improper Payments**

IPERA of 2010 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 200.21, is an annual report of agency performance. The report contains the agency’s audited financial statements and information on efforts to achieve goals during the past fiscal year.

In its FY 2013 PAR, 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 2013, the CSB continued our agreement with the Bureau of the Fiscal Service (BFS) 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 audit, we determined that CSB is compliant with this requirement of IPERA of 2010.
CSB Programs Do Not Meet Risk Assessment Threshold Requirement for Improper Payments

IPERA of 2010 requires that agencies conduct a specific risk assessment for each identified program and activity that is susceptible to significant improper payments—defined as gross improper payments exceeding $10 million in all program or activity payments made during the fiscal year reported and 2.5 percent of program outlays. IPERA of 2010 Section 2(f)(2) defines an improper payment as (A) any 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 requirement; and (B) 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.

We reviewed the CSB’s FY 2013 payments and determined that CSB does not meet the minimum for the risk assessment threshold of $10 million. As a result, CSB is not required to perform the risk assessment. CSB’s estimated FY 2013 payments are $10,547,044 as shown in table 1.

Table 1: CSB FY 2013 estimated payments from appropriations

<table>
<thead>
<tr>
<th>Activity</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPERIA payments (includes salaries and benefits)</td>
<td>$9,872,046</td>
<td>93.60%</td>
</tr>
<tr>
<td>Interagency and unobligated balance</td>
<td>674,998</td>
<td>6.40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$10,547,044</strong></td>
<td><strong>100.00%</strong></td>
</tr>
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</table>

Source: OIG analysis of CSB data.

Recovery Audits Are Not Cost Effective for CSB Improper Payments

IPERA of 2010 Section 2(h)(2)(A) requires that each agency shall conduct recovery audits with respect to each program and activity of the agency that expends $1 million 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 should be provided to the agency’s Inspector General annually.

According to OMB, a cost-effective payment recapture audit 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.

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

OMB Memorandum M-11-16, Part IB, requires that agencies make this determination on cost effectiveness at least once every 3 years. Since CSB made this determination in February 2012, CSB does not have to perform another analysis until FY 2015; at such time, CSB should consider including payroll and benefits to its analysis.

**CSB Needs to Document Its Review of BFS Testing**

In response to the OIG’s FY 2012 audit report, *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, dated March 12, 2013, CSB is receiving quarterly reports from BFS’s testing of payments less than $2,500 for improper payments. CSB noted that it reviews the reports upon receipt but does not have formal documentation of the results. BFS samples less than 1 percent of CSB payments under $2,500 and, prior to payment, reviews 100 percent of all invoices over $2,500 to correct errors. BFS does not provide CSB with documented results of the latter testing.

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.

We reviewed the reports submitted to CSB and found that BFS randomly tested the invoice population of transactions less than $2,500. In FY 2013, BFS sampled three transactions totaling $5,215.06 from this invoice population. The population contained 326 transactions that totaled $222,534.42. As a result, BFS sampled less than 1 percent of CSB’s total transactions—less than $2,500. This amount only represents 2.34 percent of the total invoiced amount for CSB. BFS did not
find errors in the three sampled transactions. However, the report stated the purchase order was “not found” for two of the three sample items. CSB stated it has no problem with BFS’s amount of testing because BFS samples for all customer agencies. In response to our draft report, CSB stated that “the reports CSB currently receives are very simple, with up to three transactions sampled each quarter, so documenting CSB’s review [of BFS’s quarterly report] would be of negligible value.” BFS has noted that it plans to implement a post-payment audit review of 25 percent of all invoices processed per customer. We believe that CSB should document its review of BFS’s reports and ensure increased testing is implemented to reduce the risk that some improper payments go undetected. By not documenting its review or ensuring increased testing is performed, CSB does not know whether BFS’s testing is effective and efficient to detect its improper payments. In response to our draft report, CSB stated that it plans to review the monthly accounts payable reports from the 25-percent testing BFS plans to perform of all processed invoices.

**Recommendations**

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

1. Establish access to the Do Not Pay portal and use that portal.

2. Ensure CSB’s payroll and benefits go through the portal to comply with IPERIA of 2012. Also, track and document reviews of improper payments to help prevent or eliminate future improper payments.

3. Document CSB’s analysis of BFS’s reports on its testing and ensure increased testing is implemented to reduce the risk that some improper payments go undetected.

**CSB Response and OIG Evaluation**

CSB concurred with recommendation 1 and has established access to the Do Not Pay portal. This recommendation has been resolved.

CSB did not agree with recommendation 2. CSB stated that, according to OMB, CSB’s payroll and benefit payments comply with IPERIA and a formal tracking of improper payments is not an efficient or effective manner to address the infrequent problems. We agree that the Do Not Pay portal is utilized in CSB’s interagency agreement with BFS for payroll payments; however, no one at IBC has confirmed their compliance with Do Not Pay requirements. If CSB does not track its improper payments, there is no evidence to show that CSB improper payments are infrequent. We continue to believe that CSB should ensure that payroll and benefit payments comply with IPERIA and document reviews of improper payments to help manage and track future improper payments. This recommendation is considered unresolved.
CSB partially agreed with recommendation 3. CSB stated that BFS quarterly reports are very simple and up to three transactions are sampled each quarter, so documenting CSB’s review would be of negligible value. However, CSB stated that it plans to document its review of BFS’s monthly accounts payable reports from BFS’s planned 25-percent post payment review of all invoices. We agree with CSB’s plans to review BFS’s monthly reports once BFS changes its review process. Our draft report noted the concerns we had with the testing of three transactions for the entire fiscal year and the errors we found in BFS’s report. Because CSB did not document its review, we could not determine whether the errors we identified were reviewed by CSB. We believe that, due to limited testing, improper payments could go undetected. CSB should document the analysis of BFS’s reports. This recommendation is considered unresolved.

CSB’s complete response to our draft report is in appendix A.
## Status of Recommendations and Potential Monetary Benefits

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<thead>
<tr>
<th>Rec. No.</th>
<th>Page No.</th>
<th>Subject</th>
<th>Status¹</th>
<th>Action Official</th>
<th>Planned Completion Date</th>
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<tbody>
<tr>
<td>1</td>
<td>8</td>
<td>Establish access to the Do Not Pay portal and use that portal.</td>
<td>C</td>
<td>Chairperson, U.S. Chemical Safety and Hazard Investigation Board</td>
<td>3/12/14</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
<td>Ensure CSB's payroll and benefits go through the portal to comply with IPERIA of 2012. Also, track and document reviews of improper payments to help prevent or eliminate future improper payments.</td>
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<td>Chairperson, U.S. Chemical Safety and Hazard Investigation Board</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>8</td>
<td>Document CSB’s analysis of BFS’s reports on its testing and ensure increased testing is implemented to reduce the risk that some improper payments go undetected.</td>
<td>U</td>
<td>Chairperson, U.S. Chemical Safety and Hazard Investigation Board</td>
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</tbody>
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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

### POTENTIAL MONETARY BENEFITS (in $000s)

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</table>
Mr. Michael D. Davis  
Director, Efficiency Audits  
Office of Inspector General  
U.S. Environmental Protection Agency

Dear Mr. Davis:

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 Improvement Act of 2012 (IPERIA). We are pleased that you found CSB compliant with most IPERIA requirements, but are very concerned about the validity of your draft findings and recommendation regarding the Do Not Pay (DNP) system.\(^4\) We are also concerned that your other two recommendations have little to no value in reducing or eliminating improper payments. The following is a detailed discussion of our concerns, keeping in mind that in fiscal year (FY) 2013 the CSB did not make any improper payments, except for four minor instances totaling $2,800,\(^5\) that were caused by personnel or payroll staff errors that would not have been flagged by any databases in the DNP system.

### Preaward Reviews

As discussed with your staff during the audit, the CSB began “on-boarding” with the Treasury’s DNP system in December 2013 so that CSB Contracting Officers will have easy access to the portal as appropriate databases become available. However, the only DNP database that CSB would use for pre-award reviews is the System for Award Management (SAM), which CSB contracting officers have always used directly to ensure vendors were eligible for payment prior to making an award.

\(^4\) IPERIA established a Do Not Pay initiative that included multiple resources designed to help agencies confirm that the right recipient receives the right payment for the right reason at the right time. One resource in this initiative is the Treasury’s DNP system, which provides a single portal for agencies to review multiple databases as appropriate to verify eligibility of payments and awards.

\(^5\) These improper payments were identified by CSB shortly after they were made, collections were initiated, and procedures were evaluated to determine if additional controls should be put in place to prevent recurrence in the future.
Further, as an official with the Office of Management and Budget (OMB) who oversees the DNP initiative reminded us, the Treasury DNP system is only one aspect of the overall DNP initiative. The law provides “each agency shall review as appropriate” the databases. This also means checking with the DNP system “as appropriate.” The OMB official informed us that checking the information from the SAM database on a pre-award basis is better than checking information that is currently available in the Treasury DNP system.

**Use of Shared Service Providers and Prepayment Reviews**

OMB requires use of shared service providers (SSP) to reduce costs while improving efficiencies and performance. The CSB uses the Bureau of the Fiscal Service, Administrative Resource Center (BFS or ARC) within the Department of the Treasury for financial services, and the Interior Business Center (IBC) within the Department of the Interior for personnel and payroll services. All payments are made through these providers. As your draft reports, we were not able to readily locate an official within IBC to confirm their compliance with DNP requirements. Therefore, as we told your staff, we contacted the OMB officials who oversee the DNP initiative and provided your staff with an e-mail from OMB confirming:

. . . the payments for the Chemical Safety and Hazard Investigation Board (CSB) are run through the Treasury Do Not Pay System. These include the payments distributed by the shared service providers: the INTERIOR BUSINESS CENTER, and the Treasury, ADMINISTRATIVE RESOURCE CENTER.

Upon receipt of your draft, CSB contacted IBC officials who confirmed that IBC is fully compliant with federal and state salary payment offset through the Department of the Treasury's Offset Program (TOP). In addition, Interior's SSP Federal Personnel Payroll System (FPPS) payroll entry and processing, input and output controls have been documented, tested for design of control and effectiveness of the control by KPMG LLP through the annual Statement on Standards for Attestation Engagements (SSAE) No. 16, *Attestation Service Organization Control Report*. The IBC received unqualified (clean) audit opinions for FPPS for multiple years and no outstanding audit findings or recommendations are currently being tracked for mitigation. CSB federal salary payments are cross-checked with the Treasury Offset Program via Interior payment file submission and any federal or state program debt would be recognized on a biweekly payroll cycle.

Your draft report also asserts that CSB should use the DNP portal to prevent improper payments to employees. However, as discussed, salary payments were run through DNP and four instances of improper payments were made nonetheless. This is because these improper payments were caused by relatively minor payroll processing errors that would have not been prevented by using the DNP portal. The following table summarizes descriptions and dollar amounts for each.

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6 OMB Memorandum M-13-08, *Improving Financial Systems through Shared Services*, is the latest iteration of guidance. The basic policy goes back at least 20 years.
In CY 2013 IBC erroneously paid for overtime earned in CY 2012 even though the employee reached the annual cap for CY 2012. Per IBC, this was a very unusual processing error. To prevent similar errors going forward, CSB no longer allows overtime to be submitted on a timecard after the annual cap has been reached.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The pay rate was incorrect when the employee was hired. This was a clerical error by IBC, no further CSB controls appear warranted.</td>
<td>736.08</td>
</tr>
<tr>
<td>The timekeeper submitted multiple incorrect amendments for this employee’s timecard, which resulted in establishing the employee debt. The CSB switched to WebTA for timecard submission and amendments, which prevents similar timekeeper errors.</td>
<td>440.75</td>
</tr>
<tr>
<td>The locality pay rate was incorrect when the employee received a promotion. This was a clerical error by IBC, no further CSB controls appear warranted.</td>
<td>55.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,807.37</strong></td>
</tr>
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</table>

**Post-Payment Reviews & Tracking**

Your draft report states that CSB should track and document reviews of improper payments to help prevent or eliminate future improper payments. As stated above, the few improper payments that were made all related to payroll processing errors. Rather than set up a tracking system for these infrequent problems, CSB found it more efficient and effective to evaluate errors as they occur to determine if additional controls should be put in place to prevent recurrence in the future.

**BFS Testing**

In reviewing your draft it appears that further clarification is needed on BFS’s invoice review process. BFS currently performs post-payment tests of a very small sample of all customer payments under $2,500 (CSB’s sample was less than 1% of these invoices), but conducts a 100% pre-payment secondary review of all invoices over $2,500. As we informed your staff, for FY 2013, this resulted in BFS performing a 100% pre-payment review of 140 invoices over $2,500 which was 29% of all CSB commercial invoices.

BFS and CSB use the Invoice Processing Platform (IPP) to process commercial invoices, and will soon be taking advantage of IPP’s system controls to replace BFS’s manual reviews. As a result, all invoices will be paid without any pre-payment secondary review. However, BFS will be implementing a post-payment audit review of 25% of all invoices processed per customer, and will issue a monthly Accounts Payable report to CSB that will contain the results of the post payment audit.
The reports CSB currently receives are very simple, with up to three transactions sampled each quarter, so documenting CSB’s review would be of negligible value. However, when BFS stops conducting 100% pre-payment secondary reviews of all invoices over $2,500 and shifts to the 25% post payment review of all invoices, the CSB plans to document its review of the monthly reports BFS will issue.

It is also worth noting that CSB also relies on the annual reviews BFS and IBC receive in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization to ensure shared service providers controls are in place and effective. These reviews give the CSB and other customer agencies independent verification that BPD and IBC controls, including disbursement controls, are in place and are operating effectively.

The attached table summarizes CSB’s responses to each recommendation. 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,

Rafael Moure-Eraso, Ph.D. /s/
Chairperson
## Summary of OIG Recommendation and CSB Response

<table>
<thead>
<tr>
<th>OIG Recommendation</th>
<th>CSB Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establish access to the Do Not Pay portal and use that portal.</td>
<td><strong>Agree.</strong> However, it is unclear why the OIG is making this recommendation as CSB has established access to the DNP Portal, and will use that portal as appropriate.</td>
</tr>
<tr>
<td>2. Ensure CSB’s payroll and benefits go through the portal to comply with IPERIA of 2012. Also, track and document reviews of improper payments to help prevent or eliminate future improper payments.</td>
<td><strong>Disagree.</strong> According to OMB, CSB’s payroll and benefit payments comply with IPERIA. In addition, formal tracking of improper payments is not an efficient or effective manner to address the infrequent problems CSB has experienced.</td>
</tr>
<tr>
<td>3. Document CSB’s analysis of BFS’s reports on its testing and ensure increased testing is implemented to reduce the risk that some improper payments go undetected.</td>
<td><strong>Partial Agreement.</strong> BFS currently performs post-payment tests of all customer payments under $2,500, and as recommended by the OIG last year, BFS provides CSB with quarterly reports of CSB’s results. These reports are very simple; up to three transactions sampled each quarter, so documenting CSB’s review would be of negligible value. However, when BFS stops conducting 100% pre-payment secondary reviews of all invoices over $2,500, shifting to a 25% post payment review of all invoices, the CSB plans to document its review of the monthly Accounts Payable reports BFS will issue.</td>
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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
General Counsel, U.S. Chemical Safety and Hazard Investigation Board
Senior Counselor to the Chair, U.S. Chemical Safety and Hazard Investigation Board
Finance Director, U.S. Chemical Safety and Hazard Investigation Board
Communications Manager, U.S. Chemical Safety and Hazard Investigation Board
Director of Administration, U.S. Chemical Safety and Hazard Investigation Board