



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

## *Financial Management*

# **EPA Complied With Improper Payment Legislation, But Opportunities for Improvement Exist**

Report No. 15-P-0152

May 1, 2015



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## Report Contributors:

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## Abbreviations

AFR	Agency Financial Report
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
OIG	Office of Inspector General
OMB	Office of Management and Budget
PER	Program Evaluation Report
SRF	State Revolving Fund

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# At a Glance

## Why We Did This Review

The Improper Payments Elimination and Recovery Act of 2010 (IPERA), as modified by the Improper Payments Elimination and Recovery Improvement Act of 2012, requires that each fiscal year the Inspector General of each agency determine whether the agency is in compliance with the law. In addition, Office of Management and Budget Memorandum M-15-02 requires that the Office of Inspector General (OIG) evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing improper payments. Our audit focused on the U.S. Environmental Protection Agency's (EPA's) compliance with these requirements.

**This report addresses the following EPA goal or cross-agency strategy:**

- *Embracing EPA as a high-performing organization.*

Send all inquiries to our public affairs office at (202) 566-2391 or visit [www.epa.gov/oig](http://www.epa.gov/oig).

The full report is at: [www.epa.gov/oig/reports/2015/20150501-15-P-0152.pdf](http://www.epa.gov/oig/reports/2015/20150501-15-P-0152.pdf)

## ***EPA Complied With Improper Payment Legislation, But Opportunities for Improvement Exist***

### What We Found

The EPA complied with improper payment legislation when reporting improper payments in fiscal year 2014. The EPA took substantial corrective actions during 2014 to identify improper payments and track the recovery of overpayments. For example, the EPA improved its testing of the State Revolving Fund program by testing a sample of negative cash draws submitted by states. The EPA established a system for tracking the recovery of State Revolving Fund improper payments. Through these actions, the EPA improved both the identification and recovery of improper payments.

**The EPA can improve the accuracy of its annual report through changes to its improper payment identification and reporting procedures.**

We found areas in which the EPA can improve its process for identifying and reporting improper payments. For example:

- The EPA did not consider either an internal control assessment of the EPA's payroll and travel payment streams—one created by the EPA itself, or an OIG report on the EPA's purchase card program—when preparing its qualitative risk assessments. Both reports highlighted areas where compliance with existing controls needed improvement.
- The EPA did not include improper payments made to a former EPA employee who pleaded guilty to theft of government property in its estimate of improper payments.
- The EPA regional staff did not always complete required fields in transaction testing worksheets, nor identify some required information in program evaluation reports.

### Recommendations and Planned Agency Corrective Actions

We recommend that the Chief Financial Officer and Assistant Administrator for Administration and Resources Management ensure future qualitative risk assessments incorporate all information available to the EPA at the time the risk assessments are prepared. In addition, we recommend that the Chief Financial Officer develop a procedure addressing when the EPA will recognize improper payments stemming from criminal judicial proceedings. We also recommend that the Assistant Administrator for Water provide feedback to regional offices on improving the program evaluation reports and transaction testing worksheets. The agency concurred with all of the recommendations and provided corrective actions and estimated completion dates.



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

THE INSPECTOR GENERAL

May 1, 2015

**MEMORANDUM**

**SUBJECT:** EPA Complied With Improper Payment Legislation,  
But Opportunities for Improvement Exist  
Report No. 15-P-0152

**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:** David Bloom, Acting Chief Financial Officer

Ken Kopocis, Deputy Assistant Administrator  
Office of Water

Karl Brooks, Deputy Assistant Administrator  
Office of Administration and Resources Management

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

The offices responsible for the implementation of the audit recommendations include the Office of Financial Management within the Office of the Chief Financial Officer; the Office of Ground Water and Drinking Water and Office of Wastewater Management within the Office of Water; and the Office of Acquisition Management within the Office of Administration and Resources Management.

**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.

This report will be available at <http://www.epa.gov/oig>.

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# Chapter 1

## Introduction

### Purpose

The objective of the audit was to evaluate the U.S. Environmental Protection Agency's (EPA's) reporting of improper payments during fiscal year (FY) 2014. Improper payment legislation and Office of Management and Budget (OMB) Memorandum M-15-02 require that the Office of Inspector General (OIG) evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing improper payments. Our audit focused on these requirements.

### Background

The purpose of the Improper Payments Elimination and Recovery Act (IPERA) is to improve the determination of improper payments.

OMB Memorandum M-15-02 states that Inspectors General may evaluate (1) the accuracy and completeness of agency reporting, and (2) agency performance in reducing and recapturing improper payments. Also, Inspectors General are annually required to determine whether agencies are in compliance with IPERA. Compliance means that the agency has met the following requirements:

- 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).
- 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.

## Responsible Offices

The offices responsible for the implementation of the audit recommendations include the Office of Financial Management within the Office of the Chief Financial Officer; the Office of Acquisition Management within the Office of Administration and Resources Management; and the Office of Ground Water and Drinking Water and Office of Wastewater Management within the Office of Water.

## Noteworthy Achievements

The EPA took substantial corrective actions during FY 2014 to identify improper payments and track the recovery of overpayments. We identified fewer misstatements in the EPA's AFR this year compared to prior years.

The EPA's implementation of our previous recommendations contributed to more accurate identification of improper payments and to tracking the recovery of overpayments. Below are the specific details on the impact of completed corrective actions.

- We recommended last year that the EPA review a sample of large negative draws to identify improper payments. The EPA agreed with the recommendation, and this year improved its testing of the Clean Water and Drinking Water State Revolving Fund (SRF) programs by testing a sample of negative cash draws submitted by states. This process identified improper payments that the EPA may not have identified had it not implemented the corrective action.
- We recommended last year that the EPA establish a system for tracking the recovery of improper payments. The EPA agreed, and this year added additional fields in the master SRF improper payment schedules to identify how improper payments were detected, the resolution, the date of resolution, the amount recovered, the amount outstanding, etc.
- We recommended that the EPA improve the process of identifying and reporting improper payments for the grants payment stream by annually reconciling the Grantee Compliance and Recipient Activity Database disallowed costs and the Compass Data Warehouse database accounts receivable. The EPA agreed with this recommendation and reconciled the Grantee Compliance and Recipient Activity Database to the Compass Data Warehouse for the grants payment stream.

## Scope and Methodology

We conducted this audit from November 2014 to March 2015 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.

The objective of the audit was to evaluate the EPA's reporting of improper payments during FY 2014 and determine whether the EPA was in compliance with IPERA. To determine whether the EPA complied with IPERA, we reviewed the EPA's FY 2014 AFR and accompanying materials. We interviewed agency staff at the EPA headquarters from the Office of the Chief Financial Officer, the Office of Grants and Debarment, the Office of Acquisition Management and the Office of Water. We also interviewed Office of the Chief Financial Officer and Office of Acquisition Management staff from the Research Triangle Park, Cincinnati, and Las Vegas Finance Centers.

We gained an understanding of the processes, procedures and controls used for improper payment and recovery reporting across multiple payment streams—including SRF, grants, commodities, contracts, payroll, travel, purchase cards, and Hurricane Sandy. We traced judgmental samples of reported improper payments from the SRF, grants, commodities and contracts payment streams back to source documentation to test the accuracy of improper payments reporting in the EPA's FY 2014 AFR. We also reviewed the qualitative risk assessments for the payroll, purchase card and travel payment streams.

In addition to reviewing a sample of transactions reported as improper payments, we also reviewed a judgmentally selected sample of program evaluation reports (PERs) and transaction testing worksheets provided by the EPA to confirm the accuracy and legitimacy of the improper payments. We also confirmed the accuracy of both the Office of Grants and Debarment and Las Vegas Finance Center's improper payment schedules to the EPA system-generated support data, and verified those aggregate values to the improper payments data reported in the FY 2014 AFR for the grants payment stream.

We used information from several EPA data systems during our work, including the Grantee Compliance and Recipient Activity Database, Contract Payment System, Small Purchase Information Tracking System, and 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 EPA OIG Report No. 14-P-0171, *EPA Needs to Continue to Improve Controls for Improper Payment Identification*, issued April 10, 2014. We found that all actions had been taken.

## Chapter 2

### Qualitative Risk Assessments Can Be Improved

The EPA did not consider relevant reports when preparing risk assessments. The EPA prepared qualitative risk assessments for its purchase card, travel and payroll payment streams to determine their susceptibility to improper payments. However, these risk assessments did not consider an internal control assessment on sensitive payment areas prepared by the EPA itself, nor an OIG report on oversight of purchase cards. Both of these reports highlighted areas where compliance with existing internal controls needed improvement. OMB Circular A-123 requires all agencies to institute either a quantitative or qualitative method to identify programs susceptible to significant improper payments. The EPA did not consider these reports when preparing the risk assessments because the EPA chose to use only those reports issued during the period it used to identify improper payments for those payment streams—FY 2013. Both reports were issued in FY 2014 but examined 2012 and 2013 data. Also, both reports were issued before the EPA prepared the risk assessments. As a result of not relying on these reports, the overall risk rating for the three payment streams was questionable. Accurate risk assessments can assist in reducing improper payments.

#### **OMB Requires an Evaluation to Determine Susceptibility to Significant Improper Payments**

Appendix C to OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*,<sup>1</sup> states that all agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. The systematic method could be a quantitative evaluation based on a statistical sample or a qualitative method. For those programs that are susceptible to significant improper payments, Appendix C to Circular No. A-123 also requires agencies to put in place a corrective action plan to reduce improper payments.

#### **Qualitative Risk Assessments Did Not Consider All Available Information**

The EPA prepared qualitative risk assessments in June 2014 for its purchase card, travel and payroll payment streams to determine their susceptibility to improper payments. The risk assessments evaluated a variety of factors based on OMB guidance, including, but not limited to:

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<sup>1</sup> OMB Memorandum M-15-02.

- Whether the payment stream was new to the agency.
- If there were major changes in the level of program funding during the scope period.
- If there were audit or internal control findings during the scope period.
- If there was a major program change such as the transitioning to a new software system.

The EPA’s risk of improper payments for the purchase card and payment streams, on a scale from 0 to 100, was a 0. The risk rating for the payroll payment stream was an 8. According to the scoring legend for the risk assessments, a rating of 0 to 40 indicates a low risk of improper payments.

When preparing these risk assessments, the EPA did not consider a 2014 internal report, *Internal Control Assessments – Travel, Payroll, Parking and Transit*, which included reviews of both the travel and payroll payment streams. The EPA did not consider EPA OIG Report No. 15-B-0014, *Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA*. The OIG report identified improper payments, and concluded that the lack of compliance with existing controls indicated a continued risk of improper payments. Both the EPA internal control assessment and the OIG report highlighted areas where compliance with existing internal controls needed improvement and identified internal control deficiencies.

## Qualitative Risk Assessments Tied to the Same Period Used to Identify Improper Payments

The EPA did not use the most current information available to prepare its qualitative risk assessments because the EPA limited the information used to evaluate risk to the same time period it used to identify improper payments for the purchase cards, travel and payroll payment streams—FY 2013. The risk assessments were prepared without incorporating the internal EPA and OIG reports because both reports were issued in FY 2014 rather than FY 2013. Table 2 shows both reports evaluated data from prior years and were issued prior to the completion of the risk assessments.

**Table 1: Relevant reports not considered in preparing risk assessments**

Report title	Period of data report incorporated	Report issued
<i>Internal Control Assessments – Travel, Payroll, Parking, and Transit</i>	Calendar Year and FY 2013	April 2014
<i>Ineffective Oversight of Purchase Cards Results in Inappropriate Purchases at EPA</i>	FY 2012	March 2014

Source: OIG analysis.

Although EPA staff were aware of these reports, neither report was considered when the qualitative risk assessments were completed in June 2014.

## **Accurate Qualitative Risk Assessments Can Assist in Reducing Improper Payments**

The risk ratings for the purchase cards, travel and payroll payment streams were questionable. Had the EPA relied on its own internal control review, as well as the OIG report on internal control weaknesses in the purchase cards program, the overall risk rating would likely have been higher. Using available and current information can increase the likelihood of reliable qualitative risk assessments, which can assist in reducing future improper payments.

### **Recommendation**

We recommend that the Chief Financial Officer and Assistant Administrator for Administration and Resources Management:

1. Ensure future qualitative risk assessments incorporate all information available to the EPA at the time the risk assessments are conducted.

### **Agency Comments and OIG Evaluation**

The EPA agreed with the recommendation. In response to Recommendation 1, the Office of the Chief Financial Officer and Office of Administration and Resources Management agreed that by September 30, 2015, the agency will ensure that future risk assessments incorporate all information available to the agency at the time the assessments are conducted, and that any outstanding audits or internal control findings are considered. The OIG believes the agency's actions, when implemented, should address the recommendation.

## **Chapter 3**

### **EPA Needs to Recognize Improper Payments Stemming From Criminal Judicial Actions**

The EPA understated the improper payments for the payroll and travel payment streams in the FY 2014 AFR because improper payments resulting from former EPA employee John C. Beale's guilty plea to theft of government property totaling \$886,186 were not reported. Improper payment legislation requires federal agencies to include payments to employees, including salary and travel payments, as a source of improper payments when the payment should not have been made or was made in an incorrect amount. The EPA did not include the \$886,186 in its estimate of improper payments because the EPA does not have procedures for recognizing improper payments stemming from criminal judicial actions. Without such procedures, concerns exist about the reliability and integrity of improper payment reporting for all payment streams.

#### **Guidance for Identifying and Reporting Improper Payments**

IPERA's definition of an improper payment includes any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients. Also, the Improper Payments Elimination and Recovery Improvement Act of 2012 requires federal agencies to include payments to employees, including salary and travel payments, as a source of improper payments.

Further, OMB Memorandum M-15-02 identifies an improper payment as any payment 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. Repayments to federal agencies as a result of criminal convictions and other legal proceedings (exclusive of fines and penalties) monetize the amount of improper payments made in prior years.

#### **EPA Under-Reported Improper Payroll and Travel Payments in FY 2014 AFR**

The EPA understated the amount of improper payments for the payroll and travel payment streams by \$886,186. The EPA did not include information regarding Beale, a former EPA employee, in its reported improper payments. Beale, a former senior policy advisor for the EPA, pleaded guilty to theft of government

property on September 27, 2013, and paid \$886,186 to the government in restitution. John Beale's conviction monetized the amount of improper payments made to him, and those improper payments should have been recognized in FY 2014. Because Beale pleaded guilty in FY 2013—the scope period for which the EPA was identifying improper payments for both travel and payroll payment streams—the EPA should have included the \$886,186 in its reported improper payments.

## **EPA Does Not Have Procedures for Determining Improper Payments as a Result of Criminal Proceedings**

The EPA did not include the \$886,186 in its reported improper payments estimation because it does not have procedures for recognizing improper payments stemming from criminal judicial actions. EPA staff informed the OIG that it was aware of the September 27, 2013, guilty plea by Beale. However, absent guidance on when and how to treat this type of improper payment, the EPA had to decide when to report the improper payment. The EPA staff stated that, in deference to the OIG, which was conducting an audit on this issue, the improper payments were excluded from the FY 2014 AFR. The EPA staff further informed the OIG that this issue would be included in the FY 2015 AFR. Because there is no procedure for recognizing improper payments stemming from criminal judicial actions, there may be other improper payments that were not captured and reported.

### **Recommendation**

We recommend that the Chief Financial Officer:

2. Develop a procedure addressing when the EPA will recognize improper payments stemming from criminal judicial proceedings.

### **Agency Comments and OIG Evaluation**

The EPA agreed with the recommendation. In response to Recommendation 2, the Office of the Chief Financial Officer stated that by September 30, 2015, it will develop a procedure addressing when the EPA will recognize improper payments stemming from criminal judicial proceedings. The OIG believes the agency's actions, when implemented, should address the recommendation.

# Chapter 4

## Improvements Needed to Report SRF Improper Payments

The EPA needs to improve compliance with its annual review guidance when conducting reviews of its Clean Water and Drinking Water SRF programs. We found that regional offices were not completing all required fields of the transaction testing worksheet, nor following the EPA's annual review guidance for reporting improper payments in the state PERs. The EPA's annual review guidance for SRF programs requires regional offices to complete all required fields in the transaction testing worksheet, and identify the improper payments in the PER. The accuracy of improper payment reporting is improved when annual review guidance is followed.

### Guidance for Identifying and Reporting Improper Payments

The EPA's annual review guidance for SRF programs includes a transaction testing worksheet that regional offices should complete when testing cash draws. The annual review guidance also states that regions identify the improper payment discovered during transaction testing in the PER. The PER should include the date, amount and grant number of all cash draws tested, the portion determined to be improper (and why), and the corrective action planned or taken.

### Improved Compliance Needed

The EPA needs to improve compliance with its annual review guidance when conducting annual reviews of SRF programs. We identified some instances where regional offices were not completing required fields of the transaction testing worksheet, nor following the EPA's annual review guidance for reporting improper payments in the PERs. For example, we noted the following:

- EPA regional staff do not always indicate on the transaction testing worksheet whether an improper payment was identified.
- One regional office incorrectly included the state match in the "Amount Paid from Other Sources" field of the transaction testing worksheet, and did not provide an explanation in the "Explanation if Paid Amount is Different from Invoiced Total" field.
- PERs do not always list the cash draws that were reviewed.

- For one state, the amount of the improper payments identified in the PER did not match the amount recorded in the EPA master schedule of improper payments.
- For another state, the amount of the improper payments identified in the transaction testing worksheet did not match the amount in the Drinking Water SRF master schedule. As shown in Table 3, this resulted in an adjustment to the Improper Payments Compliance section of EPA FY 2014 AFR Table 1.

**Table 2: Revisions to the EPA FY 2014 AFR Table 1**

	FY 2014 improper payment percent	FY 2014 improper payment amount	FY 2014 overpayment	FY 2014 underpayment
Drinking Water SRF	<del>1.29%</del>	<del>\$43.4</del>	<del>\$43.4</del>	<del>\$0</del>
	No change	\$13.3	\$13.3	No Change

Source: FY 2014 AFR and OIG analysis.

Note: The top row shows the information as reported in the EPA FY 2014 AFR with the incorrect information crossed through; the bottom row is the correct information.

EPA staff informed auditors there may have been some confusion regarding the annual review guidance. In addition, for one state, the Office of Water headquarters’ review of transaction testing worksheets resulted in a difference of opinion regarding the value of improper payments. An oversight by EPA staff also resulted in errors made to the extrapolated improper payments to EPA FY 2014 AFR Table 1. The accuracy of improper payment reporting is improved when guidance is followed.

## Recommendation

We recommend that the Assistant Administrator for Water:

3. Provide feedback to regional offices on improving compliance with the PERs and transaction testing worksheets.

## Agency Comments and OIG Evaluation

The EPA agreed with the recommendation. In response to Recommendation 3, the Office of Water will provide feedback by September 30, 2015, to regional offices on improving compliance with the SRF Annual Review Guidance, which covers the PERs and the transaction testing worksheets. The OIG believes the agency’s actions, when implemented, should address the recommendation.



## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
1	6	Ensure future qualitative risk assessments incorporate all information available to the EPA at the time the risk assessments are conducted.	O	Chief Financial Officer and Assistant Administrator for Administration and Resources Management	9/30/15		
2	8	Develop a procedure addressing when the EPA will recognize improper payments stemming from criminal judicial proceedings.	O	Chief Financial Officer	9/30/15		
3	10	Provide feedback to regional offices on improving compliance with the PERs and transaction testing worksheets.	O	Assistant Administrator for Water	9/30/15		

<sup>1</sup> 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 April 10, 2015)

### **MEMORANDUM**

**SUBJECT:** Response to Office of Inspector General Draft Audit Report No. OA-FY15-0032, “EPA Complied With Improper Payment Legislation, But Opportunities for Improvement Exist,” dated March 23, 2015

**FROM:** David A. Bloom /s/ ***Original Signed By:*** Stefan Silzer for  
Acting Chief Financial Officer

**TO:** Janet Kasper  
Director of Contracts and Assistance Agreement Audits

Thank you for the opportunity to respond to the issues and recommendations in the subject draft audit report. Following is a summary of the agency’s overall position. We have provided high-level intended corrective actions and estimated completion dates.

### **AGENCY’S OVERALL POSITION**

The agency concurs with all of the recommendations in the draft audit report.

### **AGENCY’S RESPONSE TO DRAFT AUDIT RECOMMENDATIONS**

#### **Agreements**

<b>No.</b>	<b>Recommendation</b>	<b>High-Level Intended Corrective Action(s)</b>	<b>Estimated Completion by Quarter and FY</b>
1	The Chief Financial Officer and Assistant Administrator for Administration and Resources Management ensure future qualitative risk assessments incorporate all information available to the EPA at the time the risk assessments are conducted.	OCFO and OARM will ensure that future risk assessments incorporate all information available to the Agency at the time the assessments are conducted and that any outstanding audits or internal control findings are considered.	9/30/2015
2	The CFO develop a procedure addressing when the EPA will recognize improper payments	OCFO will develop a procedure addressing when the EPA will recognize improper payments	9/30/2015

	stemming from criminal judicial proceedings.	stemming from criminal judicial proceedings.	
3	The Deputy Assistant Administrator for Water provide feedback to regional offices on improving compliance with the PERs and transaction testing worksheets.	OW will provide feedback to regional offices on improving compliance with the SRF Annual Review Guidance which covers the Performance Evaluation Reports (PERs) and the transaction testing worksheets.	9/30/2015

CONTACT INFORMATION

If you have any questions regarding this response, please contact Lorna Washington at 202-564-1386.

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