U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

U.S. Chemical Safety Board

CSB Complied With Reporting Requirements of the Improper Payments Elimination and Recovery Act for Fiscal Year 2014

Report No. 15-P-0153 **May 1, 2015**

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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 of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

U.S. Environmental Protection Agency
Office of Inspector General

15-P-0153
May 1, 2015

At a Glance

Why We Did This Review

Office of Management and Budget guidance for implementation of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) specifies responsibilities of agencies and Inspectors General. Agencies are required to report on improper payments and Inspectors General are required to determine whether agencies comply with IPERA. As the Inspector General for the U.S. Chemical Safety and Hazard Investigations 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.*

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The full report is at: www.epa.gov/oig/reports/2015/20150501-15-P-0153.pdf

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What We Found

CSB is fully compliant with the reporting requirements of IPERA.

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We determined that CSB does not meet the minimum dollar threshold that would require it to perform a risk assessment of its programs and activities that are susceptible to significant improper payments. Also, CSB determined that it is not cost effective to conduct a recapture audit. In addition, we found that CSB was not required to publish improper payment estimates because its program was not assessed to be at risk for improper payments. Further, CSB was not required to publish programmatic corrective action plans and therefore is not required to set reduction targets. Thus, this report contains no recommendations.

We reviewed the status of prior audit recommendations from our audit of CSB's compliance with improper payment regulations during fiscal year 2013. That report contained three recommendations to CSB. We concluded that CSB took sufficient action for two of those recommendations, and CSB indicated it plans to take sufficient action for the remaining recommendation in fiscal year 2016. Consequently, we consider that remaining recommendation resolved and will review implementation of that recommendation during our next IPERA audit.

Noteworthy Achievements

CSB improved oversight through its interagency agreement with the U.S. Department of the Treasury's Bureau of the Fiscal Service. In fiscal year 2014, that bureau decided to increase its testing for improper payments to 25 percent of the total paid invoices. The bureau provides CSB with its monthly post-audit results and CSB reviews the monthly reports to ensure no errors are identified by the bureau.

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

THE INSPECTOR GENERAL

May 1, 2015

The Honorable Mark Griffon
The Honorable Manuel Ehrlich Jr.
The Honorable Rick Engler
Board Members
U.S. Chemical Safety and Hazard Investigation Board
2175 K Street, NW, Suite 400
Washington, D.C. 20037-1809

Dear Board Members:

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 audit of the reporting of improper payments by the U.S. Chemical Safety and Hazard Investigation Board (CSB). The report contains findings that describe our results. 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 of 2010 and Office of Management and Budget guidance require the Inspector General to distribute this report to the following individuals and organizations, to whom we will provide the report under a separate transmittal:

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

Because this report contains no recommendations, you are not required to respond to this report. However, if you submit a response, it will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal along with corresponding justification.

We will post this report to our website at http://www.epa.gov/oig.

Sincerely,

Arthur A. Elkins Jr.

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Purpose

Our objective for this audit was to determine the U.S. Chemical Safety and Hazard Investigation Board's (CSB's) compliance with the improper payments legislation for fiscal year (FY) 2014 and to follow up on FY 2013 improper payments audit findings and recommendations.

Background

CSB is an independent federal agency charged with investigating industrial chemical accidents. Headquartered in Washington, D.C., the agency's board members are appointed by the President and confirmed by the Senate. CSB is authorized by the Clean Air Act Amendments of 1990 and became operational in January 1998.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) was signed into law on July 22, 2010, amending the Improper Payments Information Act of 2002. Office of Management and Budget (OMB) guidance requires agencies to report on improper payments and Inspectors General to review agency reporting. The U.S. Environmental Protection Agency's Office of Inspector General (OIG) is the Inspector General for CSB.

IPERA requires that each agency periodically review and identify all programs and activities that may be susceptible to significant improper payments. The review should be performed for each program and activity that the agency administers at least once every 3 fiscal years. For agencies already performing a risk assessment every 3 years, agencies may apply to the OMB Director for a waiver from the requirement and continue their 3-year risk assessment cycle.

OMB Memorandum M-15-02, Appendix C to Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, issued October 20, 2014, defines an improper payment as:

> …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.… An improper payment may also include any payment made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received…. [W]hen 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.

The Inspector General should determine whether the agency is in compliance under IPERA and submit its results to Congress. The Inspector General shall evaluate the agency's assessment of the level of risk associated with the high-priority programs and the quality of the improper payments estimates and methodology. The report should also clearly state the agency's compliance status and indicate which of the six requirements the agency complied with and which requirements the agency did not comply with. Compliance means that the agency:

- Published a Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
- Conducted a program-specific risk assessment for each program or activity (if required).
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Published programmatic corrective action plans in the PAR (if required).
- Published and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- 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 PAR.

If an agency does not meet one or more of these requirements, it is not compliant under IPERA.

Inspectors General may evaluate (1) the accuracy and completeness of agency reporting, and agency performance in reducing and recapturing improper payments; and (2) agency efforts to prevent and reduce improper payments and recommendations for actions to further improve the agency's or program's performance in reducing improper payments, including corrective actions and internal controls.

Scope and Methodology

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

To determine whether CSB is compliant with IPERA, we reviewed CSB's FY 2014 PAR and accompanying materials. We interviewed, held discussions with, and exchanged emails with CSB officials. We reviewed CSB's analysis of the U.S. Department of the Treasury's Bureau of the Fiscal Service (BFS) reports on its testing to ensure increased testing is implemented to reduce the risk that some improper payments go undetected. We also followed up on our prior-year audit recommendations.

Noteworthy Achievements

CSB has an interagency agreement with BFS. BFS decided to increase its testing for improper payments to 25 percent of the total CSB paid invoices. BFS provides CSB with its monthly post-audit results. CSB reviews BFS's monthly reports to ensure no errors are identified by BFS in its sample. CSB has provided the OIG with BFS's monthly post-payment audit results from April through October 2014. CSB also provided us with documentation that shows CSB reviews the monthly audits and tracks the results of those audits. The monthly audit reports provided to the OIG did not identify any improper payments.

Results of Audit

CSB is fully compliant with IPERA reporting requirements, which require all agencies to periodically review all programs and activities that may be susceptible to significant improper payments. As required, CSB published its PAR on its website. We determined that CSB programs do not meet the minimum risk assessment threshold that would require CSB to perform a risk assessment or the related requirements. Also, 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 FY 2013 improper payments report, we made three recommendations. We will close two of those recommendations because CSB has taken actions to comply. For the third recommendation—that CSB's payroll and benefits go through the portal to comply with IPERA, and that CSB track and document reviews of improper payments to help prevent or eliminate future improper payments—CSB did not agree with this recommendation. After we received the formal response to our draft report, CSB provided an email with additional information that resolved this recommendation. CSB has completed part of the corrective action and plans to complete the remaining corrective actions next year.

CSB Complies With PAR and Financial Statement Requirement for Improper Payments

IPERA Section 3(a)(3)(A) 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 2014 PAR, CSB stated:

> [t]he 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 2014, 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 IPERA requirement.

CSB Programs Do Not Meet Risk Assessment Threshold Requirement for Improper Payments

IPERA Section 2(a)(3)(A)(ii) requires that agencies conduct a specific risk assessment for each identified program and activity that is susceptible to significant improper payments in excess of $10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays. IPERA Section 2(f)(2) defines a payment as

> …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.

Our review of CSB's FY 2014 payments determined that CSB does not meet the requirement for the risk assessment threshold of $10 million in improper payments and 1.5 percent of program outlays. As a result, CSB is not required to perform the risk assessment. We found that CSB's estimated FY 2014 payments are $10,213,014, as shown in Table 1.

Table 1: CSB estimated payments

Activity	Amount	Percentage
FY 2014 estimated payments (includes salaries and benefits)	$10,213,014	92.85%
Interagency and unobligated balance	$786,986	7.15%
Total	**$11,000,000**	**100.00%**

Source: OIG analysis of CSB data.

CSB Determined It Is Not Cost Effective to Conduct a Payment Recapture Audit

IPERA 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-15-02, Part I D, 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. 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 recapture audit on all activities with annual outlays in excess of $1 million. CSB concluded that a recapture audit program would not be cost effective because the cost benefit of conducting a recovery audit would yield a negative return. CSB notified OMB, and OMB did not reply to CSB on its analysis. Since CSB made this determination in February 2012, CSB should perform another analysis in FY 2015; at such time, CSB should consider including payroll and benefits to its analysis.

CSB Not Required to Publish Estimates, Report on Agency Actions, and Publish Annual Reduction Targets

IPERA Section 3 (a)(3)(C) requires agencies to publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment in the accompanying materials to the annual financial statements of the agency. CSB did not have significant improper payments identified and therefore is not required to publish improper payment estimates. CSB did not meet the threshold of $10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays—in fact, CSB's improper payments amounted to $901. As a result, CSB was not required to report a gross improper payment rate of less than 10 percent. When compiling plans to reduce improper payments, agencies are to set reduction targets for future improper payment levels and a timeline within which the targets will be reached. Reduction targets must be approved by the OMB Director. CSB was not required to implement a corrective action plan and therefore is not required to set reduction targets.

Prior Year Recommendations Status

The OIG had performed an audit of CSB's compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) during FY 2014. Report No 14-P-0172, *U.S. Chemical Safety and Hazard Investigation Board Did Not Comply With the Do Not Pay Requirements for Improper Payments*, issued April 10, 2014, had three recommendations.

In Recommendation 1, we recommended that CSB establish access to the Do Not Pay portal and use that portal. CSB agreed with this recommendation and has established access to the Do Not Pay portal and is using the portal. We will close this recommendation upon issuance of the final report.

In Recommendation 2, we recommended that CSB's payroll and benefits go through the portal to comply with IPERIA, and that CSB track and document reviews of improper payments to help prevent or eliminate future improper payments. CSB did not agree with this recommendation. CSB stated in response to our request for the recommendation status that:

> [a]ccording 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.

CSB has an interagency agreement with the Department of the Interior's Interior Business Center (IBC) to provide an array of payroll and personnel processing applications and services, and human resources and human capital services. In additional discussions with CSB on its review of IBC errors, CSB stated:

> …[it] anticipates that IBC will make occasional errors that are outside of CSB's control. Therefore, as part of our on-going budget tracking we reconcile IBC payroll data to our budget projections to ensure employees are properly paid. If a discrepancy is identified, CSB follows up with IBC via phone or e-mail to resolve.

IPERIA 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. We believe that payroll and benefits should go through the portal prior to the release of funds to prevent improper payments. In addition, CSB should track and document improper payments for trends and estimates of potential improper payments. After we received the formal response to our draft report, CSB stated in an email that IBC system and payroll staff confirmed all IBC client salary payment files are run through Treasury's Do Not Pay portal. IBC plans to modify the Service Level Agreement for FY 2016 to include language that describes responsibility for improper payments. Also, CSB informed us it will keep a log to track its improper payments. This recommendation is resolved based on information provided by CSB in response to our draft report. CSB has completed part of the corrective action and plans to complete the remaining corrective actions next year. We will review implementation during our next IPERA audit.

In Recommendation 3, we recommended that CSB document its 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 partially agreed with this recommendation. CSB stated in response to our request for the recommendation status that:

> BFS shifted to 25% post payment reviews of all invoices in March 2014, and began providing monthly post audit payment results in April 2014. CSB's Director of financial operations reviews the reports each month to ensure no errors are identified by BFS in its sample, and that the total population of paid invoices are to CSB vendors in reasonable amounts.

CSB provided the OIG with BFS's monthly post-payment audit results from April through October 2014 and documentation that shows CSB reviews the monthly audits and tracks the results of the monthly audits. The monthly audit reports provided to the OIG did not identify any improper payments and we believe this process to be adequate to address any potential improper payments. We agree with the additional reviews performed by CSB and, therefore, will close this recommendation in our system upon issuance of this report.

CSB Response and OIG Evaluation

This report did not have any recommendations. As noted above, CSB responded to our statements in the report concerning the status of the Recommendation 2 in our prior IPERA report. We agree with CSB planned actions, as previously discussed, and therefore consider this recommendation resolved with the remaining corrective actions pending. We will review implementation during our next IPERA audit. CSB's complete response to our draft report is in Appendix A.

CSB Response to Draft Report

U.S. Chemical Safety and Hazard Investigation Board

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Rafael Moure-Eraso, Ph.D.
Board Member

Manny Ehrlich, Jr.
Board Member

Rick Engler
Board Member

Mark Griffon
Board Member

March 27, 2015

Mr. Kevin Christensen
Assistant Inspector General for Audits
Office of Inspector General
U.S. Environmental Protection Agency

Dear Mr. Christensen:

Thank you for the opportunity to review and comment on the draft report on the CSB's compliance with the improper payments legislation for fiscal year (FY) 2014 and to follow up on FY 2013 improper payment audit findings and recommendations. We are pleased that you found CSB fully compliant with FY 2014 reporting requirements, and that you are closing two of three FY 2013 year recommendations.

We are disappointed that you consider the following FY 2013 recommendation unresolved:

> Ensure CSB's payroll and benefits go through the [Do Not Pay] portal to comply with IPERIA. Also track and review improper payments to help prevent or eliminate future improper payments.

As we informed your staff, according to OMB the CSB's payroll and benefit payments comply with the Do Not Pay initiative. We believe no further action is needed on this point. However, in order to resolve this issue with your office we contacted our personnel and payroll service provider and requested written confirmation that payroll and benefit payments comply with the Do Not Pay initiative. We expect a response to our request in April 2015.

As the CSB explained to your staff, we anticipate that our personnel and payroll service provider will make occasional clerical errors that are outside of CSB's control. These provider errors would not be caught by any database in the Do Not Pay portal. CSB catches these minor and infrequent errors by reconciling payroll data to budget projections. The evidence that these errors are infrequent is the Treasury Report on Receivables. We provided your staff with the end of year report for FY 2014, which shows the following improper payments for FY 2014:

Name	Description	Amount
Employee 1	Wrong locality pay for step increase	$ 56
Employee 2	Inadvertent rate change by IBC	303
Employee 3	Wrong step processed when hired	542
Total		**$ 901**

While CSB believes there is little value in establishing a new tracking system to further support that there are infrequent payment problems we will keep a log of improper payments to resolve this issue with your office. If you or your staff have any questions about this response, please feel free to contact me at 202-261-7639.

Sincerely,

/S/

Anna M. Brown
Audit Liaison

Appendix B

Distribution

Board Members, U.S. Chemical Safety and Hazard Investigation Board
Managing Director, U.S. Chemical Safety and Hazard Investigation Board
General Counsel, U.S. Chemical Safety and Hazard Investigation Board
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