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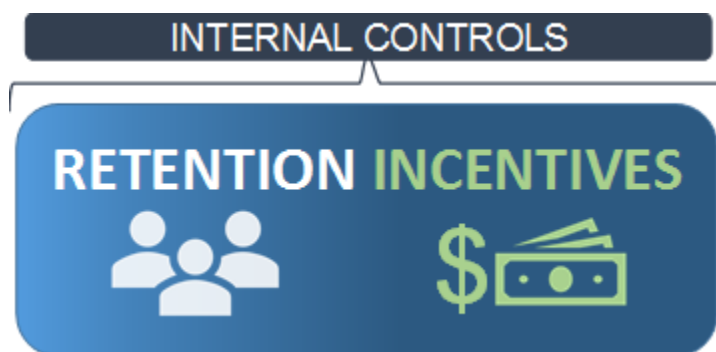
OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

Follow-Up Audit: EPA Needs to Strengthen Internal Controls Over Retention Incentives

Report No. 17-P-0407

September 26, 2017



Report Contributors:

Angela Bennett
Jan Lister

Abbreviations

CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OPM	U.S. Office of Personnel Management
PCA	Physician's Comparability Allowance
U.S.C.	United States Code

Cover image: Image regarding retention incentives, prepared by EPA OIG.

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At a Glance

Why We Did This Audit

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) conducted this audit to follow up on corrective actions made in response to two prior OIG audits on retention incentives paid by the agency and OIG. Retention incentives are used to retain employees who are highly or uniquely qualified, or meet a special need.

The objectives of this follow-up audit were to determine whether: (1) the agency completed the corrective actions proposed in the prior audits, (2) actions taken were effective in resolving the cause of the findings, and (3) the agency and OIG complied with regulations and policies for retention incentives since the prior audits.

This report addresses the following:

- *Operating efficiently and effectively.*

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[Listing of OIG reports.](#)

Follow-Up Audit: EPA Needs to Strengthen Internal Controls Over Retention Incentives

What We Found

The agency completed its proposed corrective actions to address prior OIG audit recommendations. However, the agency has not monitored retention incentives as required by existing EPA policy and 5 CFR § 575.312(a), nor issued a new incentive policy. In response to the prior OIG audit, the agency stated it had drafted a new policy that delineates the EPA's implementation requirements and processes. These actions are needed to further strengthen internal controls and effectively resolve the cause of the prior audit findings.

The agency did not perform monitoring reviews due to a misunderstanding of oversight responsibilities. The EPA's new policy, drafted in 2014, has not been issued and is currently under review by agency officials. We also identified two requirements that should be included in the agency's new policy—quarterly reviews and performance ratings. Without an up-to-date policy, the agency has no assurance that retention incentives are authorized and activities are monitored consistent with its policy and federal requirements, or that payments are valid.

The agency complied with its existing policy and 5 CFR Part 575, Subpart C, for one of two employees receiving retention incentive payments since the prior audits. However, the agency indicated the payments for the second employee may have been the result of payroll miscoding, and we questioned the payments of \$1,605 to that employee.

The OIG has not given any retention incentives since the prior audit, and therefore we performed no additional work related to the OIG.

Recommendations and Planned Agency Corrective Actions

We recommend that the Assistant Administrator for Administration and Resources Management: (1) implement quarterly monitoring of retention incentives; (2) issue new policy on retention incentives, including requirements for quarterly monitoring and performance ratings; and (3) determine the validity of the irregular payments to an employee totaling \$1,605 and, if invalid, discontinue payments and recover all funds paid. The agency agreed to take sufficient corrective action for all recommendations.

Additional actions are needed to strengthen internal controls over monitoring and to effectively resolve the cause of the prior audit findings. We question \$1,605 of irregular payments.



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

THE INSPECTOR GENERAL

September 26, 2017

MEMORANDUM

SUBJECT: Follow-Up Audit: EPA Needs to Strengthen Internal Controls Over Retention Incentives
Report No. 17-P-0407

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, reading "Arthur A. Elkins Jr.", is placed to the right of the "FROM:" line.

TO: Donna J. Vizian, Acting 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 (EPA). The project number for this audit was OA-FY17-0025. This report contains findings that describe the problems 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 EPA position.

In response to our discussion document, the agency provided an intended corrective action plan that addresses the recommendations and establishes planned completion dates. Therefore, a response to the final report is not required. The audit will be closed in the OIG's tracking system; however, the agency should track unimplemented corrective actions in EPA's Management Audit Tracking System.

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

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Purpose

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) conducted this audit to follow up on corrective actions to recommendations made in the following two prior OIG audits:

- *EPA Compliance With Retention Incentive Regulations and Policies* (Report No. [14-P-0245](#)), dated May 2, 2014.
- *EPA OIG Compliance With Retention Incentive Regulations and Policies* (Report No. [14-B-0246](#)), dated May 2, 2014.

The objectives of this follow-up audit were to determine whether:

- The agency completed the corrective actions proposed in its July 2, 2014, memorandum.
- Actions taken by the agency were effective in resolving the cause of the report findings.
- The agency and the OIG have complied with regulations and policies for retention incentives awarded since the prior audits.

Background

The U.S. Office of Personnel Management (OPM) defines a retention incentive as an incentive that an agency may pay to retain an employee who is highly or uniquely qualified, or who meets a special need of the agency. The retention incentive should be used for only those employees likely to leave federal service or take a different federal position.

Regulatory Requirements

Retention incentive regulations are codified in 5 CFR Part 575, Subpart C. These regulations require:

- An employee's rating of record must be at least "fully successful" or equivalent to be eligible for a retention incentive, and the incentive must be terminated if the employee receives a rating of less than "fully successful" or equivalent.
- Agencies must make an annual determination on whether a retention incentive payment is still warranted with written certification by an authorized official.
- Agencies must monitor retention incentives to ensure consistency with the requirements of 5 U.S.C. § 5754 and 5 CFR Part 575, Subpart C.

EPA Guidance and Policy Requirements

On July 3, 2013, the EPA Chief of Staff issued a memorandum to all managers and supervisors, “Ensuring Accurate Employee Pay and Travel Reimbursement.” The memorandum included an attachment from the Office of Administration and Resources Management (OARM) and the Office of the Chief Financial Officer (OCFO) that highlighted a number of significant changes taken to enhance internal control activities over time and attendance, including retention incentives. The attachment included the following requirements related to retention incentives:

- Periodic reviews by OCFO to monitor compliance with policy and procedures.
- Review of incentives by OARM as part of an OPM-required annual audit of each Shared Service Center.
- Development of a listing of all employees receiving incentives, to be reviewed semiannually by the Shared Service Centers and agency Senior Resource Officials.
- Production of a semiannual report for the Deputy Administrator that identifies employees with salaries exceeding the executive level II pay cap.
- Establishment of a termination date for each retention incentive granted.

On November 19, 2013, the OARM Office of Human Resources issued HR Bulletin 14-001B, “Retention Incentives: Interim Procedures, Documentation, Recertification and Oversight Requirements.” Issuance of the bulletin was one of several actions taken by the agency to strengthen its internal controls. The agency stated the bulletin delineated all requirements for approval, justification, documentation and annual review of incentives. The bulletin supersedes prior policy in the EPA’s “Pay Administration Manual 3155, Chapter 3.”

A new policy for Recruitment, Relocations, and Retention Incentives is currently under review by agency officials. The new policy will supersede the 2013 policy in HR Bulletin 14-001B.

Prior Audits

EPA Compliance With Retention Incentive Regulations and Policies

(Report No. [14-P-0245](#)), dated May 2, 2014: The audit disclosed that the EPA did not maintain documentation of the required annual recertification, and one employee was paid a retention incentive for 4 years beyond the date of the employee’s promotion. The OIG recommended that the EPA: (1) determine if any additional evidence exists to justify the incentive and, if unjustified, recover the

payments; and (2) pursue recovery of the unauthorized payments to employees receiving pay beyond their promotion date or authorized end date. The EPA addressed the recommendations and recovered \$6,647 in overpayments.

EPA OIG Compliance With Retention Incentive Regulations and Policies (Report No. [14-B-0246](#)), dated May 2, 2014: The audit disclosed that two OIG employees received incentives; however, documentation of the annual recertification was not found. The report recommended that the OIG determine whether any additional evidence existed to justify the incentives and, if unjustified, refer the matter to the agency to initiate action to recover the unauthorized payments. The OIG verified that no documentation existed due to record retention policies and determined that the retention incentives were justified.

Responsible Offices

In accordance with the EPA's policy, individual program and regional offices are responsible for preparing retention incentive requests for personnel in their offices. OARM's Office of Human Resources is responsible for reviewing and preparing the final justification. The Office of Human Resources' Shared Service Centers are responsible for processing the requests. The Office of Human Resources is also responsible for establishing policy and procedures. The OCFO's Office of the Controller is responsible for payroll support of the incentives and conducting quarterly reviews of retention pay.

Scope and Methodology

We conducted this audit from March 2017 to August 2017, in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To address the objectives, we:

- Reviewed the agency's corrective actions, obtained supporting documents, and interviewed OCFO and OARM staff and managers responsible for implementation and monitoring of the actions.
- Reviewed policies, procedures and regulations pertaining to retention incentives issued since the prior audit reports.
- Obtained and reviewed OARM's Office of Human Resources and OCFO's internal review reports pertaining to retention incentives.

- Obtained a list of retention incentive payments made during the period August 8, 2013, through February 4, 2017.
- Obtained and reviewed employee retention incentive files supporting the incentive payments.

Based on acceptance of the response to the prior OIG audit, we limited our audit of the OIG to retention incentive payments since the prior audit. Our initial work identified no new payments by the OIG; consequently, we conducted no additional work pertaining to the OIG and do not report further on the OIG.

Results of Audit

The agency completed the corrective actions in response to the prior audit recommendations. However, the agency has not conducted monitoring of retention incentives as required by the EPA's existing policy and 5 CFR § 575.312(a), or issued a new retention policy. In response to the prior OIG audit, the agency stated it had drafted a new incentive policy to clearly delineate EPA's implementation requirements and processes. These actions are needed to further strengthen internal controls and to effectively resolve the cause of the prior audit findings. We specifically noted the following:

- The monitoring reviews, including quarterly for pay and semiannually for authorization, were not performed due to a misunderstanding of oversight responsibilities between the various offices involved.
- The agency has drafted but not issued a new retention policy, as reported to the OIG.

We also identified two requirements that should be included in the EPA's new retention incentive policy—quarterly reviews and performance ratings. Without an up-to-date policy, the agency has no assurance that retention incentives are authorized and monitored consistent with its policy and federal requirements, or that payments are valid.

For one of two employees who began receiving retention incentive payments after the prior audit, the agency complied with retention incentive and recertification requirements in its existing policy and 5 CFR Part 575, Subpart C. For the other employee, the agency could not provide documentation to support approval for the payments made. OCFO indicated the payments may have been the result of payroll miscoding. As a result, we question \$1,605 of retention incentive payments due to irregularities identified with the payments.

Additional Actions Needed to Strengthen Internal Controls

In its response to the prior audit, the agency notified the OIG that it had taken actions to strengthen its internal controls over retention incentives. The OIG was unable to assess the implementation and adequacy of the controls because no EPA employees were receiving new or existing retention incentives at the time of the prior audit. The agency stated it has implemented the following:

- Quarterly reviews and reporting by OCFO to determine if any employee is receiving a retention incentive or has been paid above the applicable statutory pay cap.
- Semiannual reviews and reporting by the Office of Human Resources and its Shared Service Centers to identify possible pay-cap and similar noncompliance issues.
- Development of a new human resources incentive policy that clearly delineates the EPA's implementation requirements and processes.

Our assessment under this audit showed that the agency has not (a) implemented a quarterly or semiannual review process or (b) issued a new policy that will include retention incentives. These issues are addressed below.

Quarterly and Semiannual Reviews and Reporting Not Implemented

While the agency required quarterly reviews by the OCFO in 2013, the OCFO's own internal control assessments—conducted in 2014 and 2016—found a lack of implementation of quarterly reviews of retention incentives. In response, the agency stated that, on a quarterly basis, the OCFO was to provide a list of employees receiving retention incentives to the Shared Service Centers for review. A subsequent assessment conducted by the OCFO in 2016 found that this action was not implemented. In response, the OCFO stated that it will produce the quarterly report and provide it to the Office of Human Resources for review starting in the third quarter of 2016.

Our review showed that the OCFO did not implement the quarterly review process in 2016 as stated. We learned that while OCFO is responsible for generating quarterly reports of retention incentive activity, the reports are not reviewed by OCFO or the OARM Office of Human Resources. The reports are provided to the Shared Service Center – Cincinnati, which considers the reports as “information only” and to be used only for pay cap review.

Per OARM and OCFO officials, quarterly and semiannual reviews were not performed due to a misunderstanding of oversight responsibilities between the various offices—OCFO, OARM's Office of Human Resources (Policy Division and Executive Services Division), and the Shared Service Centers. Some of the confusion is that the Shared Service Centers no longer have a

primary role due to the migration of the EPA's payroll to a new system in June 2014.

Based on our audit inquiries, the agency implemented a procedural change in April 2017 in which OCFO will send the quarterly reports to all three Shared Service Center Directors to review the validity of all current retention incentive payments. Unlike OCFO, OARM has not taken action to address the semiannual review process. Regulations at 5 CFR Part 575, Subpart C, require the monitoring of retention incentives at least annually. Monitoring—whether quarterly or semiannually—is needed to maintain consistency with federal requirements and to prevent the potential for unauthorized incentives and invalid payments.

New Retention Incentive Policy Not Issued

The agency developed the existing retention incentive policy in 2013, but has not yet issued a new policy. In its response to the prior audit, the agency stated it would finalize a new policy after OPM issues the new governmentwide update of a recruitment, relocation and retention incentive directive. In January 2016, OPM issued a guidance document that includes requirements for retention incentives. Based on our discussion with OARM's Office of Human Resources staff, the agency's new policy has been in draft form since 2014 and is currently under review by agency officials.

We also identified two requirements missing from the 2013 policy that should be included in the new policy. First, as discussed above, there is no policy statement that requires quarterly reviews and the reporting of retention incentives by OCFO. Second, the 2013 policy does not discuss performance rating requirements. The regulation at 5 CFR § 575.305(d) stipulates that a retention incentive may only be paid when the employee's rating of record is at least a "fully successful" or equivalent. Based on our review and discussions with OARM and OCFO officials, it is understood that these are requirements that should be followed even though they are not in the existing policy.

Incentive Payments and Compliance With Policies and Regulations

We identified two EPA employees who started receiving retention incentive payments after the prior audits. For the first employee, our review of the payment data and supporting documentation showed that the approval for the retention incentive and annual recertification complied with the requirements of 5 CFR Part 575, Subpart C, and the EPA's policy. The approval for the retention incentive was made in July 2015 and recertified in September 2016.

We are questioning payments made to the second employee because the agency did not have documentation to support an approval for the retention incentive

payments made. Payroll data as of April 15, 2017, showed that the employee received retention incentive payments totaling \$1,605 for the period January 8, 2017, through April 15, 2017. OCFO personnel said the payments may have been made in error due to miscoding, as the employee was also receiving a Physician's Comparability Allowance (PCA). A PCA may be paid to certain eligible federal physicians who enter into service agreements with their agencies. Depending on the physician's months of federal service and grade level, the allowance, with a 2-year service agreement, may include an incentive of up to \$6,000.

Documentation supporting the PCA—provided by the OARM's Office of Human Resources—showed that the employee was approved for a PCA and a 2-year incentive of \$6,000. The employee started receiving the PCA in June 2014. OCFO payroll data as of May 2017 showed the employee continued to receive the PCA. We were unable to determine whether the retention payments were valid or the result of miscoding related to the PCA, because there is no documentation to support a separate retention incentive payment or the basis for the payments. Nonetheless, the employee has been receiving two types of incentive payments since January 2017. As result, we are questioning the \$1,605 in retention incentives paid to the employee.

Conclusion

The agency effectively implemented actions to strengthen its internal controls over the retention incentive approval and recertification process. However, while the agency's guidance requires the monitoring of retention incentives, it has not conducted these reviews as required by the EPA policy and federal requirements. The irregular payment of \$1,605 demonstrates the need for the monitoring reviews. A new policy that includes all required elements would serve to reinforce existing requirements and strengthen internal controls.

Recommendations

We recommend the Assistant Administrator for Administration and Resources Management:

1. Implement a process for quarterly review of retention incentives for proper authorization and payment.
2. Issue new policy on retention incentives, including requirements for quarterly monitoring and performance ratings.
3. Determine the validity of the \$1,605 in payments made to an employee and, if invalid, discontinue payments and recover the funds paid.

EPA Response and OIG Comments

The agency agreed with the OIG's recommendations and provided corrective actions with estimated completion dates. The agency's detailed response is in Appendix A. The agency's corrective action for Recommendation 1 included implementation of a process for a quarterly review of retention incentives, but the response did not address semiannual reviews. In follow-up communications, the agency clarified that the quarterly review process will eliminate the need for semiannual reviews.

The OIG agrees with the agency's proposed corrective actions and completion dates, as well as comments on the factual accuracy of the report. The OIG modified the report to simplify Recommendation 1 and to clarify facts as appropriate.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS							Potential Monetary Benefits (in \$000s)
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date		
1	7	Implement a process for quarterly review of retention incentives for proper authorization and payment.	R	Assistant Administrator for Administration and Resources Management	12/31/17		
2	7	Issue new policy on retention incentives, including requirements for quarterly monitoring and performance ratings.	R	Assistant Administrator for Administration and Resources Management	12/31/18		
3	7	Determine the validity of the \$1,605 in payments made to an employee and, if invalid, discontinue payments and recover the funds paid.	R	Assistant Administrator for Administration and Resources Management	3/31/18	\$1.6	

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

EPA Response to Discussion Document



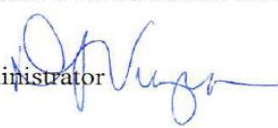
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

SEP - 7 2017

OFFICE OF
ADMINISTRATION
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MEMORANDUM

SUBJECT: Response to the Office of Inspector General's Discussion Document: Follow-Up Audit - EPA Needs to Strengthen Internal Controls Over Retention Incentives, Project No. OA-FY17-0025

FROM: Donna J. Vizian, Acting Assistant Administrator 

TO: John Trefry, Director, Forensic Audits
Office of Audit
Office of the Inspector General

Thank you for the opportunity to review and comment on the Office of Inspector General's discussion document on its follow-up review of the U.S. Environmental Protection Agency's compliance with retention incentive regulations and policies.

The OARM requests an adjustment to the first recommendation and concurs with the second and third recommendations. Our position and comments on the recommendations and on the report language are included as an attachment.

Thank you for helping us improve this agency program. If you have any questions or concerns regarding our response, please contact Ms. Linda Gray, director, Office of Human Resources at (202)564-4606 or Gray.Linda@epa.gov.

Attachment

cc: John Showman
Linda Gray
Wesley Carpenter
David Bloom
Debbi Hart
Loretta Hunt
Cheri Hembrey
Lauren Lemley
Marian Cooper

Recommendation	Corrective Action	Estimated Completion
1. Implement a process for quarterly review of incentive payments made by the Office of the Chief Financial Officer and a semiannual review by the Office of Administration and Resources Management's Office of Human Resources for proper authorization.	The recommendation can be simplified and strengthened. OCFO has already committed to sending quarterly reports to OARM. OCFO will send the quarterly reports to points of contact in the Human Resources Shared Service Centers and OHR's Policy and Accountability Branch. PAB will work with the SSCs to identify any problems found in the reports and recommend options for their resolution. The OHR director will be responsible for ensuring that all problems are resolved.	December 31, 2017
2. Issue new policy on retention incentives, including requirements for quarterly monitoring and performance ratings.	OARM will issue a new policy that includes requirements for quarterly monitoring and performance ratings. The new policy will be a part of the agency's recruitment, relocation and retention (3Rs) policy.	December 31, 2018
3. Determine the validity of the \$1,605 in payments made to an employee and, if invalid, discontinue payments and recover the funds paid.	OCFO will work with OARM to investigate the matter and will discontinue payments and recover the funds, if necessary.	March 31, 2018

The OARM does have some minor concerns about the text in the draft report. We ask that you revise the report based on the following comments:

<u>Page</u>	<u>Section</u>	<u>Comment for factual accuracy</u>
Page 3	<u>Responsible Offices</u>	<u>2nd Sentence:</u> OARM/OHR is responsible for reviewing and preparing the final justification. The servicing HR Shared Service Center processes the retention incentive.
Throughout the discussion document	<u>See comment</u>	<u>Throughout:</u> Please replace "retention incentive award" with " <i>retention incentive payment.</i> " Incentive payments are not awards.

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