



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Compliance with the law

EPA Complies with Payment Integrity Information Act but Needs to Determine Cost Allowability When Testing for Improper Grant Payments

Report No. 21-P-0135

May 14, 2021

FY 2020 reporting



Allowability of costs



Improper grant payments



Report Contributors:

Kevin Chaffin
Komlan Gbezan
Doug LaTessa
Chikara Mbah
Myka Bailey-Sparrow
Khadija Walker

Abbreviations

AFR	Agency Financial Report
C.F.R.	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019

Cover Image: The EPA complies with the Payment Integrity Information Act (left), but lacks a cost allowability determination, resulting in inaccuracies when testing for improper grant payments. (EPA OIG image)

Are you aware of fraud, waste, or abuse in an EPA program?

EPA Inspector General Hotline

1200 Pennsylvania Avenue, NW (2431T)
Washington, D.C. 20460
(888) 546-8740
(202) 566-2599 (fax)
OIG_Hotline@epa.gov

Learn more about our [OIG Hotline](#).

EPA Office of Inspector General

1200 Pennsylvania Avenue, NW (2410T)
Washington, D.C. 20460
(202) 566-2391
www.epa.gov/oig

Subscribe to our [Email Updates](#)
Follow us on Twitter [@EPAoig](#)
Send us your [Project Suggestions](#)



At a Glance

Why We Did This Audit

The Payment Integrity Information Act of 2019 requires inspectors general to determine and issue a report on agency compliance with the Act every fiscal year. The PIIA requires the heads of each agency to periodically review and identify all programs and activities with costs exceeding the statutory threshold dollar amount that may be susceptible to significant improper payments.

We conducted this audit to determine whether the U.S. Environmental Protection Agency is in compliance with these requirements.

This audit addresses the following:

- *Compliance with the law.*

This audit addresses these top EPA [management challenges](#):

- *Fulfilling mandated reporting requirements.*
- *Complying with key internal control requirements (data quality).*

Address inquiries to our public affairs office at (202) 566-2391 or OIG_WEBCOMMENTS@epa.gov.

List of [OIG reports](#).

EPA Complies with Payment Integrity Information Act but Needs to Determine Cost Allowability When Testing for Improper Grant Payments

What We Found

The EPA's FY 2020 improper payment reporting complied with PIIA requirements, but the Agency did not determine the allowability of costs—including that costs be necessary, reasonable, and adequately documented—when testing grant payments for improper payments and instead reviewed the grant payments for purpose, time, and amount. Per 2 C.F.R. Part 200, Subpart E, *Cost Principles*, cost principles—which are principles for determining the allowable costs incurred by nonfederal entities under federal awards—must be used to determine the allowable costs of work performed by nonfederal entities, such as state, local, or tribal governments, under federal awards. The grant reviewers in the Office of the Chief Financial Officer did not determine cost allowability because, while the EPA provides guidance on identifying allowable costs, it does not require staff to adhere to the Office of Management and Budget's cost principle regulations.

Improved review methods when considering the allowability of costs for grant funds will aid the EPA in identifying estimated improper payments.

In the FY 2020 *Agency Financial Report*, the EPA reported \$17.08 million in estimated improper payments for its grants program. However, our analysis of 20 of the 240 payments that the EPA tested in its grants payment stream program identified an additional \$38,038.96 in improper payments due to insufficient documentation. While the EPA complied with PIIA requirements, the Agency cannot be certain that its improper payments estimates for the grants payment stream program were fully accurate without the grant reviewers testing for cost allowability. Improved review methods when considering the allowability of costs for grant funds will aid the EPA in more accurately identifying estimated improper payments and lead to better use of funds.

Recommendation and Planned Agency Corrective Action

We recommend that the chief financial officer revise the Office of the Chief Financial Officer's *Standard Operating Procedure Grants Improper Payment Review* to include the cost-allowance principles as set forth in 2 C.F.R. Part 200, Subpart E, in its improper payments estimates for the grants payment stream program and provide training to staff on the updated procedure. The EPA agreed with our recommendation and provided an acceptable planned corrective action and estimated milestone date. We consider the recommendation resolved with the corrective action pending.



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

THE INSPECTOR GENERAL

May 14, 2021

MEMORANDUM

SUBJECT: EPA Complies with Payment Integrity Information Act but Needs to Determine Cost Allowability When Testing for Improper Grant Payments
Report No. 21-P-0135

FROM: Sean W. O'Donnell

A handwritten signature in blue ink that reads "Sean W O'Donnell".

TO: David Bloom, Acting Chief Financial Officer

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was [OA-FY21-0013](#). This report contains findings that describe the problems the OIG has identified and the corrective action the OIG recommends. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of the Chief Financial Officer oversees the testing of grant payments for improper payments and is responsible for the issues discussed in this report.

In accordance with EPA Manual 2750, your office provided acceptable corrective action in response to the OIG recommendation. The recommendation is resolved, and no further response is required. However, if you submit a response, however, it will be posted on the OIG's 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 www.epa.gov/oig.

Table of Contents

Chapters

1	Introduction	1
	Purpose	1
	Background.....	1
	Responsible Offices	3
	Scope and Methodology	3
	Prior Audit Coverage	4
2	EPA Complied with PIIA Requirements but Needs to Determine Cost Allowability When Testing for Improper Payments	5
	EPA Complied with PIIA Requirements.....	5
	OMB Regulations Pertaining to PIIA Grant Reviews	6
	OCFO Did Not Determine Whether Costs Are Allowable Due to Unclear EPA Guidance	6
	OCFO Did Not Identify All Improper Payments	7
	Recommendation.....	8
	Agency Response and OIG Assessment	8
	Status of Recommendation and Potential Monetary Benefits	9

Appendices

A	Internal Control Assessment	10
B	OIG Sampled Draw Downs	11
C	Agency Response to Draft Report.....	12
D	Distribution	14

Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency's Office of Inspector General conducted this audit to:

- Review the payment integrity section of the fiscal year 2020 *Agency Financial Report*, known as the AFR, to determine whether the EPA is in compliance with the Payment Integrity Information Act of 2019, known as the PIIA.
- Evaluate the following Agency actions, as they relate to improper payments: risk assessment methodology, improper payment rate estimates, sampling and estimation plans, corrective action plans, and prevention and reduction efforts.

Top Management Challenges

This audit addresses the following top management challenges for the Agency, as identified in OIG Report No. [20-N-0231](#), *EPA's FYs 2020–2021 Top Management Challenges*, issued July 21, 2020:

- Fulfilling mandated reporting requirements.
- Complying with key internal control requirements (data quality).

Background

The PIIA requires the heads of each executive agency to periodically review all programs and activities and identify all costs exceeding the statutory threshold dollar amount that may be susceptible to significant improper payments. On March 2, 2020, Congress enacted the PIIA to replace and repeal the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. There are six compliance requirements set forth in the PIIA, and they are described in more detail in Chapter 2.

The PIIA requires executive agencies to report high-priority improper payments, any actions taken by the agency to recover improper payments, and how the agency plans to prevent future improper payments.

The following is how the PIIA defines “improper payment:”

- (A) means any payment that should not have been made or that was made in an incorrect amount, including an overpayment

or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement; and

- (B) includes-- (i) any payment to an ineligible recipient; (ii) any payment for an ineligible good or service; (iii) any duplicate payment; (iv) any payment for a good or service not received, except for those payments where authorized by law; and (v) any payment that does not account for credit for applicable discounts.

Appendix C to the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, states that "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 should also be considered an improper payment."

According to the PIIA and Appendix C to OMB Circular A-123, agencies are required to annually estimate and report improper payments for programs and activities that are deemed susceptible to significant improper payments. The EPA annually collects and reports improper payments by activity type in its AFR.

In its FY 2020 AFR, the EPA reported an estimate of \$17.08 million in improper payments. The EPA stated in the payment integrity section of the report that "[f]or the agency's grants payment stream, overpayments [improper payments] principally consist of unallowable costs or lack of supporting documentation." Table 1 lists a summary of the risk level for improper payments for each of the EPA's programs involving payments.

Table 1: Program risk level

Payment stream	Not susceptible to significant improper payments	Susceptible to significant improper payments	High priority
Commodities	X		
Contracts	X		
Clean Water State Revolving Fund	X		
Drinking Water State Revolving Fund	X		
Grants		X	
Hurricane Sandy	X		
Payroll	X		
Purchase Cards	X		
Travel	X		
2018 Disaster Relief	X		

Source: EPA FY 2020 AFR. (EPA OIG table)

The PIIA requires inspectors general to determine agency compliance with the PIIA and to issue a report on that determination annually. Furthermore, Appendix C to OMB Circular A-123 states that inspectors general should also evaluate the accuracy and completeness of agency reporting.

In November 2020, the Council of the Inspectors General on Integrity and Efficiency, the oversight body for inspectors general, issued guidance recommending that, in addition to determining compliance with the six requirements of the PIIA, inspectors general should evaluate the accuracy and completeness of agency reporting, as well as the agency's performance in reducing improper payments.

Responsible Offices

The Office of the Chief Financial Officer formulates the EPA's annual budget and performance plan, coordinates the EPA's strategic planning efforts, develops the EPA's annual *Performance and Accountability Report*, and implements the Government Performance and Results Act. The OCFO also provides financial services for the EPA and makes payments to grant recipients, contractors, and other vendors. It also creates policies, issues reports, and provides oversight for the financial operations of the EPA. The grants' transaction testing was led by the Office of the Controller's Policy, Training, and Accountability Division. The Office of the Controller develops, manages, and supports the Agency's federal financial management program by interpreting fiscal legislation, maintaining fiscal operations, and implementing governmentwide external reporting reforms.

Scope and Methodology

We conducted this performance audit from November 2020 to April 2021 in accordance with generally accepted government auditing standards. 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.

We assessed internal controls necessary to satisfy the audit objective. In particular, we assessed the internal control components and underlying principles significant to the audit objective (Appendix A). Because our audit was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

To determine whether the EPA complied with the PIIA, we reviewed the EPA's FY 2020 AFR and accompanying materials. We interviewed OCFO staff at EPA

headquarters to obtain an understanding of the processes, procedures, and controls used for improper payment detection and reporting across the EPA.

The grants payment stream program is the only program that was reported in the AFR to be susceptible to significant improper payments. To test this payment stream program's compliance with the PIIA, we assessed a judgmentally selected sample of 20 of the 240 grant payments that the EPA reviewed for improper payments from November 2019 through March 2020 (Appendix B). Our sample of 20 payments was selected based on the type of grant recipients and dollar value. The 240 grant payments were valued at \$26,839,684.59 and the 20 grant payments we reviewed totaled \$3,525,088.87. We consulted with the OIG's Office of Counsel to determine which laws and regulations were significant with respect to the audit objectives.

Prior Audit Coverage

During this audit, we reviewed OIG Report No. [20-P-0167](#), *EPA Complied with Improper Payments Legislation, but Internal Controls Need Substantial Improvement to Ensure More Accurate Reporting*, issued May 13, 2020. In that report, the OIG recommended revisiting the recommendation in EPA OIG Report No. [19-P-0163](#), *EPA Complied with Improper Payments Legislation but Stronger Internal Controls Are Needed*, issued May 31, 2019. That recommendation was to implement internal controls for training reviewers and annually verify that reviewers are knowledgeable and proficient in the identification and reporting of improper payments, as well as to verify all corrective actions are completed. We verified that the EPA implemented the corrective actions associated with this report.

Chapter 2

EPA Complied with PIIA Requirements but Needs to Determine Cost Allowability When Testing for Improper Payments

The EPA's FY 2020 improper payment reporting complied with all six PIIA requirements, but the Agency did not determine the allowability of costs—including that costs be necessary, reasonable, and adequately documented—when testing grant payments for improper payments and instead reviewed the grant payments for purpose, time, and amount. The OCFO's *Standard Operating Procedure Grants Improper Payment Review*, dated January 2020, outlines the process for the Agency to prepare improper payments estimates to meet PIIA requirements but does not require staff to conduct an analysis of costs allowability according to 2 C.F.R. Part 200, Subpart E, *Cost Principles*. By not using cost principles—which are principles for determining the allowable costs incurred by nonfederal entities under federal awards—when testing grant payments, the EPA failed to detect an additional \$38,038.96 of improper payments.

EPA Complied with PIIA Requirements

The PIIA requires agencies to identify, report, and reduce improper payments in federal government programs and activities. Table 2 lists the six PIIA requirements, the actions the EPA took for each requirement, and the OIG's determination as to whether the EPA complied with each requirement during FY 2020.

Table 2: The requirements of the PIIA and the EPA's actions in FY 2020

PIIA requirement	EPA actions	Compliance
"[P]ublished improper payments information with the annual financial statement of the executive agency for the most recent fiscal year;" and "posted on the website of the executive agency that statement and any accompanying materials required under guidance of the Office of Management and Budget."	The EPA published the FY 2020 AFR, including improper payments information, on the Agency's website on November 16, 2020.	Yes
"[I]f required, has conducted a program specific risk assessment for each program or activity that conforms with the requirements under section 3352(a)."	Risk assessments are required every three years, and none were due in FY 2020. The EPA conducted risk assessments in FY 2018 for the following low-risk programs: commodities, contracts, Clean Water State Revolving Fund, Drinking Water State Revolving Fund, payroll, purchase cards, and travel. The EPA conducted a qualitative risk assessment for the Agency's 2018 Disaster Relief Funding in 2019.	N/A

PIIA requirement	EPA actions	Compliance						
"[I]f required, publishes improper payments estimates for all programs and activities identified under section 3352(a) in the accompanying materials to the annual financial statement."	The EPA was required to publish estimates. The EPA performed program statistical sampling and published improper payment estimates for grants, its only risk-susceptible program.	Yes						
"[P]ublishes programmatic corrective action plans prepared under section 3352(d) that the executive agency may have in the accompanying materials to the annual financial statement."	The EPA reported in the FY 2020 AFR that the Agency did not exceed the statutory threshold identified in the PIIA of \$10 million and 1.5 percent of program outlays, or \$100 million of estimated improper payments. Therefore, the corrective action plan is not required. Improper payment amounts and rates reported for risk-susceptible programs were \$17.08 million and 1.03 percent of program outlays for grants.	N/A						
"[P]ublishes improper payments reduction targets established under section 3352(d) that the executive agency may have in the accompanying materials to the annual financial statement for each program or activity assessed to be at risk, and has demonstrated improvements and developed a plan to meet the reduction targets."	<p>Because the statutory threshold identified in the PIIA was not exceeded, the EPA was not required to publish reduction targets. The EPA, however, met the improper payment target rate published in the FY 2019 AFR:</p> <table border="1"> <thead> <tr> <th>Payment stream</th><th>Targeted rate</th><th>Actual rate</th></tr> </thead> <tbody> <tr> <td>Grants</td><td>1.25%</td><td>1.03%</td></tr> </tbody> </table>	Payment stream	Targeted rate	Actual rate	Grants	1.25%	1.03%	N/A
Payment stream	Targeted rate	Actual rate						
Grants	1.25%	1.03%						
"[H]as reported an improper payment rate of less than 10 percent for each program and activity for which an estimate as published under section 3352(c)."	The EPA reported an improper payment rate of 1.03 percent for the grants payment stream program.	Yes						

Source: PIIA and OIG analysis of EPA data. (EPA OIG table)

OMB Regulations Pertaining to PIIA Grant Reviews

The OMB issued regulations for federal grants and awards. Per 2 C.F.R. Part 200, Subpart E, cost principles must be used by federal agencies in determining the allowable costs of work performed by a nonfederal entity, such as a state, local, or tribal government, under federal awards. The criteria for allowability includes ensuring that the costs are necessary, reasonable, and adequately documented.

OCFO Did Not Determine Whether Costs Are Allowable Due to Unclear EPA Guidance

OCFO staff did not test grant payments for allowability. The OCFO's review of grant payments was limited to examining supporting documentation for the following three components:

- Purpose: there is an authorized need or intent for the cost.
- Time: the cost was incurred within the time frame of the grant.
- Amount: the cost is within the limits of the grant budget.

This occurred because while the OCFO *Standard Operating Procedure Grants Improper Payment Review* includes guidance on identifying questioned costs, it does not require OCFO reviewers to analyze the allowability of costs according to 2 C.F.R. 200 Subpart E. Specifically, the standard operating procedure includes some guidance on identifying questioned costs and determining whether such costs should be disallowed. The standard operating procedure defines disallowed costs as costs or expenses charged to an assistance agreement—which includes grants and cooperative agreements—that the federal awarding agency determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the award.

However, if OCFO reviewers have a question about a particular cost, they are required to refer the matter to an EPA grant management officer, known as a GMO, to determine whether the cost is allowable, per 2 C.F.R. 200 Subpart E. This process is not sufficient because the GMOs only review costs that the OCFO determines are questionable. For example, in our sample of 20 grant payments that totaled \$3,525,088.87, OCFO grant reviewers referred \$107,036.86—approximately 3.04 percent—to the GMOs to examine for cost allowability (Appendix B). The other grant payments were never reviewed for cost allowability.

In addition, OCFO officials told us that improper payments legislation does not require including the 2 C.F.R. 200 requirement in high-risk grant payment reviews. Rather, OCFO management and staff interpreted the cost principles in 2 C.F.R. 200 Subpart E as pertaining to grant compliance reviews, which the OCFO does not perform.

According to the PIIA, the definition of “improper payment” includes any payment that should not have been made under any “legally applicable requirement.” In the case of grants, a *legally applicable* requirement is 2 C.F.R. 200. Of the 20 awards in our sample, 19 were issued under the authority of 2 C.F.R. 200. As noted above, 2 C.F.R. 200 Subpart E must be used in determining the allowable costs of work performed by the nonfederal entity under federal awards and is applicable to all costs related to federal awards. Failure of the Agency to apply the cost allowance principles as set forth in the OMB’s regulations results in the risk that the Agency’s improper payments estimates are not fully accurate or complete because the steps the Agency took to make those estimates do not employ the proper legal standard in determining the allowability of costs.

OCFO Did Not Identify All Improper Payments

While the EPA complied with PIIA requirements as set forth in Table 2, the Agency cannot be certain it accurately identified the amount of improper payments without incorporating the OMB cost principle into its testing procedures. Because OCFO staff did not test grant payments for allowability, the

EPA did not have adequate documentation to conclude that costs were allowable and failed to detect \$38,038.96 in additional improper payments.

OMB regulations state that for a cost to be allowable, it must be adequately documented. In some cases, there was no documentation at all to support the costs claimed by grant recipients. For example, a grant recipient was unable to provide us with documentation to support a reimbursement for \$5,592.76. In another case, the grant recipient provided only a credit card statement to support the claimed costs. Specifically, the recipient provided a monthly expense report for January 2019 that included \$17,469.81 from a credit card balance, which is not considered valid documentation. We confirmed these improper payments with the EPA's GMOs.

The EPA cannot determine whether costs are proper without incorporating cost principles into its testing procedures. Improved review methods in considering the allowability of costs for grant funds will aid the EPA in more accurately estimating improper payments and lead to better use of funds.

Recommendation

We recommend that the chief financial officer:

1. Revise the Office of the Chief Financial Officer's *Standard Operating Procedure Grants Improper Payment Review* to include the cost allowance principles as set forth in 2 C.F.R. Part 200, Subpart E in its improper payments estimates for the grants payment stream program and provide training to staff on the updated procedure.

Agency Response and OIG Assessment

The Agency agreed with our recommendation. The OCFO will incorporate 2 C.F.R. Part 200 Subpart E into the PIIA review of sampled grant payments. The OCFO will also update the *Standard Operating Procedure Grants Improper Payment Review* to reflect the additional applicable requirements. The OCFO said that the corrective action will be completed by September 30, 2021. We consider this recommendation resolved with the corrective action pending.

Status of Recommendation and Potential Monetary Benefits

RECOMMENDATION						Potential Monetary Benefits (in \$000s)
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	
1	8	Revise the Office of the Chief Financial Officer's <i>Standard Operating Procedure Grants Improper Payment Review</i> to include the cost allowance principles as set forth in 2 C.F.R. Part 200, Subpart E in its improper payments estimates for the grants payment stream program and provide training to staff on the updated procedure.	R	Chief Financial Officer	9/30/21	\$38

¹ C = Corrective action completed.
 R = Recommendation resolved with corrective action pending.
 U = Recommendation unresolved with resolution efforts in progress.

Internal Control Assessment

This table identifies which internal control components and underlying principles are significant to our audit objectives.

Which internal control components are significant to the audit objectives? (mark box to left)		Which internal control principles are significant to the audit objectives? (mark box to left)	
	Control Environment E.g., one or more engagement objectives assess the structure, roles, or responsibilities that management designs and assigns to personnel or standards of conduct, training, competence, or accountability of personnel.		1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
			2. The oversight body should oversee the entity's internal control system.
			3. Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve the entity's objectives.
			4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
			5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
	Risk Assessment E.g., one or more engagement objectives assess the organization's definition of objectives or identification or analysis of risk.		6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
			7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
			8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
			9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
X	Control Activities E.g., one or more engagement objectives assess the design or implementation of the organization's policies, procedures, actions, or information systems that have been established to achieve its objectives and respond to risk.	X	10. Management should design control activities to achieve objectives and respond to risks.
			11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
			12. Management should implement control activities through policies.
	Information and Communication E.g., one or more engagement objectives assess the organization's use of information to communicate within the organization or to external parties.		13. Management should use quality information to achieve the entity's objectives.
			14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
			15. Management should externally communicate the necessary quality information to achieve the entity's objectives.
	Monitoring E.g., one or more engagement objectives assess the organization's identification of internal control deficiencies or corrective actions of deficiencies.		16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
			17. Management should remediate identified internal control deficiencies on a timely basis.

Source: Based on internal control components and principles outlined in GAO-14-704G, *Standards for Internal Control in the Federal Government* (also known as the "Green Book"), issued September 10, 2014.

OIG Sampled Drawdowns

	Award number	Draw amount	OCFO costs referred to the GMO	Improper payments identified by the OIG
1	DE 00D69518	\$277,002.00	\$0	\$0
2	RD 83595001	30,558.51	0	0
3	BF 00A00215	61,624.56	0	0
4	XA 99T27601	221,607.00	0	0
5	V 96824101	9,503.40	0	0
6	DE 99T70001	548,750.00	0	0
7	W9 99T24201	110,697.37	0	0
8	V 00042913	86,986.00	0	0
9	A 00571111	196,640.07	0	1,633.01
10	BG 96464619	1,411,421.00	0	0
11	RD 83618701	42,728.12	0	0
12	XA 83936201	128,193.00	17,469.81	23,244.81
13	XP 01F53201	19,310.62	0	16.25
14	BG 00T99718	51,331.00	0	28.00
15	TX 99T78401	10,296.87	0	0
16	BG 98852119	74,641.54	74,641.54	6,191.96
17	RP 00A00296	29,485.49	0	5,592.76
18	BF 00A00215	17,002.00	3,535.00	0
19	XA 83936201	120,054.00	2,807.34	0
20	GA 01J22001	77,256.32	8,583.17	1,332.17
	Total:	\$3,525,088.87	\$107,036.86	\$38,038.96

Source: OIG analysis of EPA data. (EPA OIG table)

Agency Response to Draft Report



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

April 15, 2021

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to the Office of Inspector General Draft Report, Project No. OA-FY21-0013, *"EPA Complies with the Payment Integrity Information Act but Needs to Determine Cost Allowability When Testing for Improper Grant Payments,"* dated April 5, 2021

FROM: David A. Bloom, Acting Chief Financial Officer **DAVID BLOOM**
Office of the Chief Financial Officer

Digitally signed by DAVID
BLOOM
Date: 2021.04.15 12:54:41
-04'00'

TO: Khadija E. Walker, Director
Contract and Assistance Agreement Directorate
Office of Audit

Thank you for the opportunity to respond to the issues and recommendation in the subject draft report. The following is a summary of the U.S. Environmental Protection Agency's overall position, along with its position on the report's recommendation.

AGENCY'S OVERALL POSITION

The draft report contains two findings and one recommendation for the Office of the Chief Financial Officer. The OCFO concurs with the Office of Inspector General's recommendation.

It is important to note, in accordance with the *Payment Integrity Information Act* regulations, federal agencies must perform risk assessments every three fiscal years to determine whether the agency's payment streams are considered susceptible to improper payments. Due to the agency's continued compliance with PIIA, updated requirements in the Office of Management and Budget's Circular A-123, Appendix C, and the OMB's Circular A-136, beginning in FY 2022 the OCFO will only perform grant transaction sampling reviews when a risk assessment on the grants payment stream determines grants to be susceptible to improper payments.

RESPONSE TO RECOMMENDATIONS

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date

1	Revise the Office of the Chief Financial Officer's Grants Improper Payment Review Standard Operating Procedure to include the cost allowance principles as set forth in 2 C.F.R. Part 200, Subpart E in its improper payments estimates for the grants payment stream program and provide training to staff on the updated procedure.	The OCFO agrees with the OIG's recommendation to incorporate 2 CFR 200 Subpart E – <i>Cost Principles</i> – into the <i>Payment Integrity Information Act</i> review of sampled grant payments. When a risk assessment determines the grants payments stream to be susceptible to improper payments, the OCFO will evaluate 2 CFR Subpart E §200.402 through §200.411 - " <i>Basic Considerations</i> " as part of the OCFO's PIIA review. The OCFO will update the PIIA Grant Improper Payment Review Standard Operating procedures to reflect the applicable additional requirements.	September 30, 2021
---	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------

The OCFO also would like to note an inaccuracy in the referenced draft report on page 3, which states, "*The OCFO's Finance Center in Washington D.C., performed the grant improper payment reviews in FY 2020*". The Grants' transaction testing was led by the staff from the OCFO's Office of the Controller's Policy, Training, and Accountability Division.

CONTACT INFORMATION

If you have any questions regarding this response, please contact the OCFO's Audit Follow-up Coordinator, Andrew LeBlanc, at leblanc.andrew@epa.gov or (202) 564-1761.

cc: Carol Terris
Lek Kadel
Jeanne Conklin
Meshell Jones-Peeler
Richard Gray
OCFO-OC-MANAGERS
Kevin Chaffin
Doug LaTessa
Mark T. Howard
Mitchell Hauser
Andrew LeBlanc
José Kercadó Deleon

Distribution

The Administrator
Deputy Administrator
Chief of Staff, Office of the Administrator
Deputy Chief of Staff, Office of the Administrator
Chief Financial Officer
Agency Follow-Up Coordinator
General Counsel
Associate Administrator for Congressional and Intergovernmental Relations
Associate Administrator for Public Affairs
Deputy Chief Financial Officer
Associate Chief Financial Officer
Associate Chief Financial Officer for Policy
Controller
Deputy Controller
Director, Office of Continuous Improvement, Office of the Chief Financial Officer
Director, Office of Planning, Analysis and Accountability, Office of the Chief Financial Officer
Director, Policy, Training, and Accountability Division, Office of the Controller
Chief, Management, Integrity and Accountability Branch; Policy, Training, and Accountability Division, Office of the Controller
Audit Follow-Up Coordinator, Office of the Administrator
Audit Follow-Up Coordinator, Office of the Chief Financial Officer