



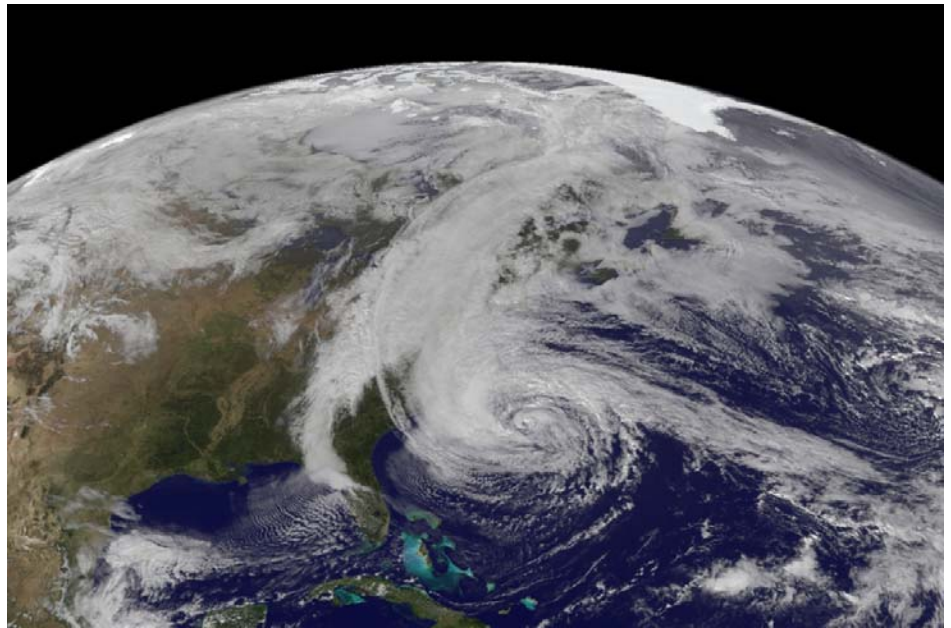
U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Internal Control Lessons Learned for Hurricane Sandy Disaster Relief Appropriations Act Funds

Report No. 13-P-0351

August 22, 2013



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Report Contributors:

Patrick Gilbride
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Abbreviations

ARRA	American Recovery and Reinvestment Act of 2009
CWSRF	Clean Water State Revolving Fund
DRAA	Disaster Relief Appropriations Act
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
SRF	State Revolving Fund

Cover photo: Hurricane Sandy was the biggest Atlantic storm in history, spanning an area broader than Texas. (EPA image)

Hotline

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1200 Pennsylvania Avenue, NW
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Washington, DC 20460



At a Glance

Why We Did This Review

On January 29, 2013, the President signed the Disaster Relief Appropriations Act, which provided \$50.5 billion in aid for Hurricane Sandy disaster victims and their communities. DRAA required federal agencies supporting Sandy recovery to implement internal controls to prevent fraud, waste and abuse of funds. The U.S. Environmental Protection Agency received nearly \$608 million, the bulk of which was designated for the Clean Water and Drinking Water State Revolving Funds. We sought to determine whether the EPA has controls in place for the award and management of Sandy relief funds based on lessons from past reports on the American Recovery and Reinvestment Act of 2009.

This report addresses the following EPA Goals or Cross-Cutting Strategies:

- *Protecting America's waters.*
- *Cleaning up communities and advancing sustainable development.*

For further information, contact our Office of Congressional and Public Affairs at (202) 566-2391.

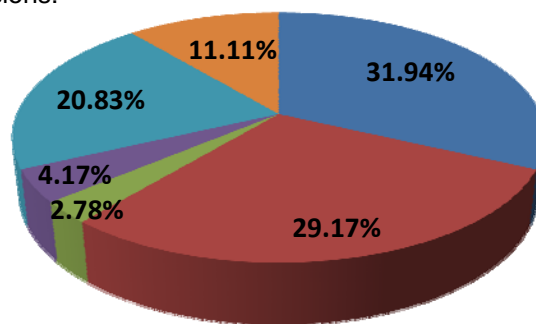
The full report is at:
www.epa.gov/oig/reports/2013/20130822-13-P-0351.pdf

Internal Control Lessons Learned for Hurricane Sandy Disaster Relief Appropriations Act Funds

What We Found

The Office of Management and Budget provided guidance to federal agencies supporting Sandy recovery on their submittal of internal control plans by March 31, 2013. We reviewed 72 prior reports on ARRA and found that the following percent of reports addressed key OMB provisions specifically, addressed multiple provisions, or addressed no provisions:

- Conducting Additional Levels of Review
- Increasing Monitoring and Oversight of Grant Recipients
- Expediting Review and Resolution of Audit Findings
- Adopting Improper Payments Management Protocol
- Multiple Categories
- No Categories



Source: OIG analysis.

EPA has controls in place to manage Sandy relief funds as described in the agency's internal control plan (dated March 28, 2013), such as conducting transaction testing on cash draws; performing semiannual administrative review of audits; and accelerating resolution of open audits. We identified additional controls for the agency to consider based on our prior report review:

1. Strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.
2. Work with states to incorporate inspections as part of routine oversight.
3. Utilize information in recipient monitoring databases to regularly provide management reports on project progress and status of corrective actions.
4. Include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with delayed projects.
5. Update detection and reporting procedures to identify improper grant payments.

This report makes no recommendations. We encourage the agency to consider lessons we identified as the EPA moves forward with Sandy recovery activities.

Noteworthy Achievements

The EPA showed foresight to seek a waiver from OMB on expending funds within 24 months given the long-term nature of SRF construction projects. The EPA also has plans in place to undertake many actions to address our suggestions.



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

THE INSPECTOR GENERAL

August 22, 2013

MEMORANDUM

SUBJECT: Internal Control Lessons Learned for Hurricane Sandy Disaster Relief
Appropriations Act Funds
Report No. 13-P-0351

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: Stefan Silzer, Director
Office of Financial Management, Office of the 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. This report contains observations and suggestions identified by the OIG. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

Action Required

You are not required to provide any further response to this report. We will post this report to our website at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Rich Eyermann, acting assistant inspector general for audit, at (202) 566-0565 or Eyermann.Richard@epa.gov; or Patrick Gilbride, director for risk and program performance audits, at (303) 312-6969 or Gilbride.Patrick@epa.gov.

Reason for Review

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act, which provided \$50.5 billion in aid for Hurricane Sandy disaster victims and their communities. Because relief funding of this magnitude often carries additional risk, federal departments and agencies must ensure that the funds appropriated under the DRAA are used for their intended purposes. The EPA received nearly \$608 million under the DRAA (post-sequester amount of \$577 million). To provide assistance to the EPA, we conducted a review of past Office of Inspector General and Government Accountability Office reports on the American Recovery and Reinvestment Act of 2009 to compile a list of lessons learned for the agency's Sandy recovery activities. This memorandum summarizes the results of our review.

Background

Hurricane Sandy made landfall on October 29, 2012, and struck the East Coast from North Carolina to Maine. High winds and storm surge caused widespread flooding; loss of life; displacement of persons; and significant damage to private property, public infrastructure and government facilities. A dangerous nor'easter followed 9 days later causing additional damage and undermining the recovery effort. New York and New Jersey were especially hard hit by these storms. Recovery efforts continue today throughout the region.

The DRAA requires federal agencies supporting Sandy recovery and other disaster-related activities to implement additional internal controls to prevent waste, fraud and abuse of recovery funds. Most of the EPA's DRAA appropriation provided for the Clean Water and Drinking Water State Revolving Funds (\$600 million). Additional DRAA provisions for the EPA included:

- Each state shall use not less than 20 percent but not more than 30 percent of the amount of its capitalization grant for principal forgiveness, negative interest loans or grants, or any combination of these.
- Funds shall only be used for projects whose purpose is to reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic

Clean Water State Revolving Fund

The Clean Water State Revolving Fund program was established in 1987 under the Clean Water Act. CWSRF programs provided more than \$5 billion annually in recent years to fund water quality protection projects for wastewater treatment, nonpoint source pollution control, and watershed and estuary management. CWSRFs have funded over \$89 billion, providing over 30,012 low-interest loans to date.

Drinking Water State Revolving Fund

The Safe Drinking Water Act, as amended in 1996, established the Drinking Water SRF to make funds available to drinking water systems to finance infrastructure improvements. The program also emphasizes providing funds to small and disadvantaged communities and to programs that encourage pollution prevention as a tool for ensuring safe drinking water.

change or a natural disaster at treatment works defined by the Federal Water Pollution Control Act or any eligible facilities under the Safe Drinking Water Act, and for other eligible tasks at such treatment works or facilities to further such purposes.

- The Administrator may retain up to \$1,000,000 of such funds for management and oversight.
- Funds must be expended by grantees within 2 years following the agency's obligation of funds for the grant. The agency must include a term in the grant that requires the grantee to return to the agency any funds not expended within the 24-month period.

The Office of Management and Budget issued a memorandum to federal agencies supporting Sandy recovery that established the criteria for control plans required by the DRAA to be submitted by March 31, 2013 to OMB, GAO, and the agency's Inspector General. OMB Memorandum M-13-07 required that, at a minimum, agency internal control plans for Sandy recovery-related program funding reflect consideration of the following elements:

- **Conducting Additional Levels of Review.** Agencies shall adopt more expansive review procedures, as appropriate, to scrutinize award decisions, payment transactions, and other critical process elements that impact the use of the Disaster Relief Appropriation Act's funds. To ensure a higher degree of accountability, each agency shall include senior level officials in these reviews, as appropriate (e.g., areas of high risk).
- **Increasing Monitoring and Oversight of Grant Recipients.** To the extent appropriate to mitigate risk and possible budgetary constraints, agencies shall increase the frequency and specificity of grantee reporting, conduct additional site visits, and provide additional technical assistance and training to recipients of federal funding.
- **Expediting Review and Resolution of Audit Findings.** Agencies shall resolve all audit findings within 6 months after completion of the audit to the extent practicable. Agencies should avoid granting extension requests for audit report submissions and should explore the feasibility of conducting additional audit activities to review internal control procedures *prior to funding the activity*.
- **Adopting Improper Payments Management Protocol.** Agencies shall manage all Sandy-related funding with the same discipline and rigor as programs that are traditionally designated as high-risk for improper payments.
- **Continuing Collaboration with the Inspector General Community.** To identify and mitigate potential risk, agencies shall continue early and frequent engagement with Inspectors General to discuss issues affecting the DRAA's disaster-related programs and activities.

The EPA issued its internal control plan to OMB on March 28, 2013, and we summarized our observations on the agency's plan below.

Noteworthy Achievements

The EPA showed foresight to seek a waiver from OMB on the requirement to expend DRAA funds within 24 months. EPA staff noted that the 2-year requirement does not exist in the SRF base program and that it is difficult to construct a typical SRF construction project in 2 years. The EPA also has plans in place to undertake many actions to address our suggestions.

Scope and Methodology

We performed our review from April 2013 to July 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our review to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations based on our objectives. We believe the evidence obtained provides a reasonable basis for our observations presented in this report.

We sought to determine whether the EPA has controls in place for the award and management of Sandy relief funds based on lessons from past ARRA reports. While the EPA noted important distinctions between ARRA funding and Sandy relief funds, the agency agrees that ARRA provides a fruitful reference point for Sandy planning. To address our objective, we received briefings from agency program and regional offices on Sandy recovery activities, including oversight of the states of New York and New Jersey. The EPA's Office of Regional Operations and Office of the Chief Financial Officer described key lessons from ARRA as well as emergency responses to Hurricane Katrina and the Deepwater Horizon Oil Spill that the agency considered in formulating its Sandy internal control plan (submitted to OMB on March 28, 2013).

We reviewed prior EPA OIG and GAO ARRA reports, and prior EPA OIG non-ARRA reports on items referenced in the EPA's internal control plan (e.g., SRF, improper payments, etc.), to identify applicable lessons for Sandy relief funds. We reviewed 72 prior reports on ARRA, including 68 EPA OIG and four GAO reports. We also reviewed the EPA's Management Audit Tracking System for unimplemented recommendations on a judgmental sample of water-related reports given the majority of DRAA appropriations to the CWSRF and DWSRF. We identified 44 lessons learned from our review of prior reports and

American Recovery and Reinvestment Act

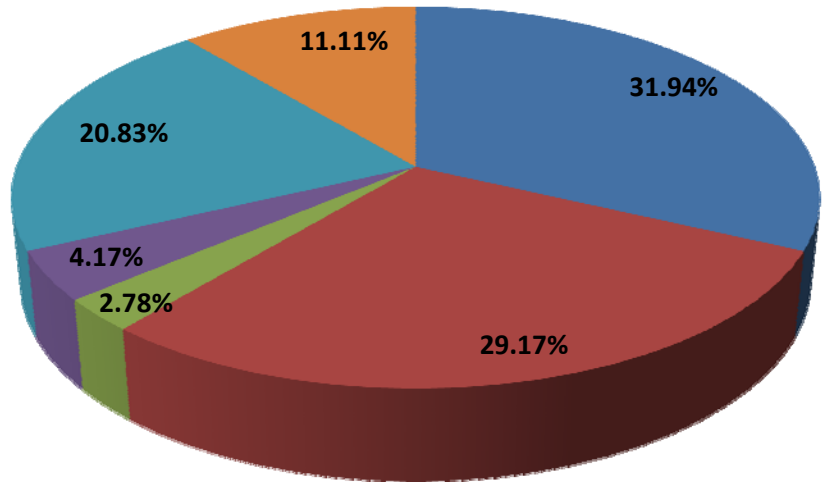
The purpose of the American Recovery and Reinvestment Act was to quickly save and create jobs. Other objectives were to provide temporary relief programs for those most impacted by the recession and invest in infrastructure, education, health, and "green" energy. The approximate cost of the economic stimulus package was estimated to be \$787 billion at the time of passage (later revised to \$831 billion). The Act included direct spending in infrastructure, education, health, and energy; federal tax incentives; and expansion of unemployment benefits and other social welfare provisions. For EPA, ARRA provided significant funding for states to finance high-priority water infrastructure projects through a \$4 billion appropriation to the CWSRF program and a \$2 billion appropriation to the DWSRF program.

further narrowed list to five key lessons that repeated in three or more reports. We conducted a comparative analysis of our identified lessons learned against the EPA’s provisions in the DRAA and the agency’s internal control plan to determine the adequacy of planned internal controls. We vetted our five suggestions with the EPA and incorporated herein the agency’s comments and its descriptions of activities related to our five suggestions.

Results of Review

EPA has controls in place to manage Sandy relief funds as described in the agency’s internal control plan, such as conducting transaction testing on cash draws; performing semiannual administrative review of audits; and accelerating resolution of open audits. We identified additional controls for the agency to consider based on our prior report review. Our review of 72 prior ARRA reports identified the following number of those reports with elements relating to key OMB provisions specifically, addressing multiple provisions, or addressing no provisions:

OMB Provision	Number of Reports
Conducting Additional Levels of Review	23
Increasing Monitoring and Oversight of Grant Recipients	21
Expediting Review and Resolution of Audit Findings	2
Adopting Improper Payments Management Protocol	3
Reports with Multiple Categories	15
Reports with No Categories	8



Source: OIG analysis.

We identified five internal controls for the EPA to consider based on issues that arose in three or more of the 72 ARRA reports we reviewed:

1. The EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.
2. The EPA should work with states to incorporate inspections as part of routine oversight.
3. The EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.

4. The EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.
5. The EPA should update its detection and reporting procedures to identify improper grant payments.

We found that the EPA’s Sandy internal control plan addressed OMB guidance requirements. We overlaid OMB’s key elements and our observations on five control suggestions on the EPA’s internal control plan. Appendix A shows the agency’s full plan with our analysis in green.

The EPA agreed with our five control suggestions and described activities already undertaken related to each as follows:

<p>1. The EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.</p>
<p>The EPA agrees on the importance of sub-recipient oversight. The SRF program provided New York and New Jersey with copies of review checklists to help ensure sub-recipient compliance with SRF requirements. In addition, the EPA has developed DRAA-specific guidance with the states to facilitate DRAA compliance.</p>
<p>2. The EPA should work with states to incorporate inspections as part of routine oversight.</p>
<p>The EPA agrees that inspections can enhance oversight. While the EPA does not have the statutory authority to require states to inspect projects, historically both New York and New Jersey have chosen to do so. Consistent with the OIG’s suggestion, they have indicated that they will follow this practice for DRAA-funded projects (typically, inspections occur once each at the project’s beginning and end, with larger projects receiving more frequent inspections).</p>
<p>3. The EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.</p>
<p>The EPA agrees on the need to effectively use monitoring information to assess progress and corrective action. This is a key component of our Internal Control Plan. The “Performance and Results” section of the plan designates the review of existing databases such as Clean Water Benefits Reporting System, Drinking Water Benefits Reporting System and Compass Data Warehouse. EPA Order 5600.6A2 requires the use of the Post Award Database and Grantee and Compliance Database to monitor and track corrective actions. The SRF program guidance also requires monthly reporting from the states on outlays and disbursements by project. Program officials utilize these sources to provide monthly updates to management.</p>
<p>4. The EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p>
<p>Both New York state and New Jersey, the two states that will be receiving SRF capitalization grants under DRAA, have a long track record of successfully managing billions of dollars worth of water infrastructure projects. To ensure projects are completed, the EPA requested a waiver from the 2 year expenditure requirement from OMB. In addition, in response to requests from both states, the EPA will provide support in tracking individual project status (Clean Water Benefits Reporting System and Drinking Water Benefits Reporting System and Compass Data Warehouse) to ensure that the funds are spent expeditiously. Further, the SRF program guidance requires monthly reporting from the states on outlays and disbursements by project. The EPA believes these measures address the underlying intent of the OIG’s suggestion.</p>

5. EPA should update its detection and reporting procedures to identify improper grant payments.

The EPA agrees that it is imperative to address the risk of improper payments and our Internal Control Plan reflects this priority. OMB M-13-07 provides that “agencies shall manage all Sandy related funding with the same discipline and rigor as programs that are traditionally designated as high-risk for improper payments.” To ensure compliance with the OMB directive, the SRF program will continue to use its existing high-risk compliant protocol. The EPA will also continue to implement an OMB-compliant sampling methodology to identify improper payments through cash transaction testing.

Source: OIG analysis based upon the EPA’s June 14, 2013 response to our discussion draft report.

Conclusion

This report makes no recommendations to the EPA. Rather, we suggest that the EPA consider the control suggestions we identified from past ARRA reports as the agency moves forward with its Sandy recovery activities.

Agency Comments and OIG Evaluation

The EPA agreed with our report suggestions and appreciated our efforts to acknowledge the agency’s proactive steps to address our suggestions. Appendix B includes the agency’s full response to our draft report.

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	Claimed Amount	Agreed-To Amount
No recommendations.							

¹ O = recommendation is open with agreed-to corrective actions pending
 C = recommendation is closed with all agreed-to actions completed
 U = recommendation is unresolved with resolution efforts in progress

OIG Analysis of the EPA’s Hurricane Sandy Internal Control Plan

Agency: U.S. EPA

Hurricane Sandy Internal Control Plan

Explanation - The table below describes the incremental risks identified with each program administering Hurricane Sandy recovery funding as well as the internal control strategy (specific policies and procedures enhancements) for mitigating each of these risks. The risk assessment reflects the agency strategy on reducing improper payments, promoting effective grants management, and ensuring the integrity of acquisitions. Further, the plan addresses efforts to conduct additional levels of review, increase monitoring and oversight of grant recipients, enhance collaboration with the inspector general community, expedite review and resolution of audit findings, and adopt improper payments management protocol.

Program Name: Clean Water State Revolving Fund (CWSRF) – \$500 million¹

Funded Activities: Waste Water Infrastructure Financing. Grants fund state- managed SRF funds which provide loans (and some subsidies) for waste water projects to protect public health and ensure compliance with the Clean Water Act (CWA). However, unlike other SRF appropriations, the supplemental funds are provided for the purpose: “to reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster at treatment works ... and for other eligible tasks at such treatment works or facilities necessary to further such purposes”.²

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
<p><u>Verify spending</u> - Ensure expenditures match progress to date and are for appropriate purpose (Improper Payments³) and appropriate measures taken to prevent waste, fraud and abuse.</p>	<p>Perform State Annual Review & conduct transaction testing on selected cash draws. Semi-Annual Administrative review of audits and open reviews. In addition, resolution of open audits will be accelerated. Policies and Procedures: EPA Order 5700.6A2 Policy on Compliance, Review and Monitoring, EPA Manual 2750 Audit Management Procedures.</p>	<p>1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA. 2. EPA should work with states to incorporate inspections as part of routine oversight. 3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.</p>	<p>Conducting Additional Levels of Review Increasing Monitoring and Oversight of Grant Recipients Expediting Review and Resolution of Audit Findings Adopting Improper Payments Management Protocol</p>

¹ SRF Notes a) Mechanism for CW & DW SRFs are similar but they implement different statutes and have some differences in eligibility, etc. b) EPA may also retain \$1 million of the total \$600 million for management and oversight c) States may choose to switch some funds from one SRF to the other.

² Copy of EPA and management portions of the DRAA legislation attached for reference.

³ The agency plans to group all “Sandy” funds into a consolidated payment stream, which will be sampled for improper payments during the FY 2014 improper payments reporting cycle.

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
<p><u>Performance & Results</u> – Ensure progress with workplan and environmental results / outcomes.</p>	<p>Review State Annual Report and conduct State Annual Review & review CBR (Clean Water Benefits Reporting System)/PBR (Drinking Water Benefits Reporting System) data. Policies and Procedures: 5700.6A2 Policy on Compliance, Review and Monitoring; EPA Order 5700.7 Environmental Results under EPA Assistance Agreements.</p>	<ol style="list-style-type: none"> 1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA. 2. EPA should work with states to incorporate inspections as part of routine oversight. 3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans. 4. EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed. 	<p>Increasing Monitoring and Oversight of Grant Recipients</p>
<p><u>Civil Rights</u> - Compliance with Title VI.</p>	<p>Provide certification of compliance with Title VI (Form 4700-4). Policies and Procedures: National administrative term and condition, "Civil Rights Obligations," included on all awards.</p>	<p>N/A</p>	<p>Conducting Additional Levels of Review</p>
<p><u>OIG</u> - Ensure collaboration with the Office of the Inspector General</p>	<p>EPA has identified a point of contact in OIG for all Hurricane Sandy related issues.</p>	<p>N/A</p>	<p>Continuing Collaboration with the Inspector General Community</p>
<p><u>Grant Conditions</u> – Compliance with all terms and conditions associated with grant.</p>	<p>Semi-annual administrative review of compliance with grant terms and conditions. Policies and Procedures: EPA Order 5700.6A2 Policy on Compliance, Review and Monitoring.</p>	<ol style="list-style-type: none"> 1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA. 2. EPA should work with states to incorporate inspections as part of routine oversight. 3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of 	<p>Conducting Additional Levels of Review</p>

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
		<p>projects and status of corrective action plans.</p> <p>4. EPA's plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p>	
<p><u>Appropriate Use</u> - Ensure all funds associated with the award are needed for applicable projects.</p>	<p>Completion of annual ULO review and certification. Policies and Procedures: Resource Management Directive System No. 2520-03-P1 (Administrative Controls of Appropriated Funds); EPA Grants Policy Issuance (GPI)11-01 Managing Unliquidated Obligations and Ensuring Progress under EPA Assistance Agreements (as amended by GPI 12-06 Timely Obligation, Award and Expenditure of EPA Grant Funds).</p>	<p>4. EPA's plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p>	<p>Conducting Additional Levels of Review</p>
<p><u>Tracking</u> – EPA will track the outlays and expenditures.</p>	<p>Creation of CFDA 66.482 - Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants For Clean Water State Revolving Funds and new appropriations /funds code (E2S2 – CWSRF Sandy Supplemental).*</p>	<p>4. EPA's plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p> <p>5. EPA should update its detection and reporting procedures to identify improper grant payments.</p>	<p>Increasing Monitoring and Oversight of Grant Recipients</p>

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
<p><u>Timely Expenditure</u> – Additional procedures to ensure funds are used in a timely manner in the case where a waiver is granted for the two year expenditure requirement (Section 904(c)).</p>	<p>The estimated outlay/expenditure rates are based on the states’ needs and plans. (EPA will not be delaying the work) New Jersey and New York have indicated it could take many years to expend all the funds, given the time it takes to implement construction projects. The estimated outlays/expenditures are as follows: Year 1: 0%; Year 2: 2%; Year 3: 24%; Year 4: 21%; Year 5: 19%; Year 6: 11%; Year 7: 8%; Year 8: 7%; and Year 9: 8%. Policies and Procedures: SRF Guidance on Managing Hurricane Sandy Funds and Activities.*</p>	<p>3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.</p> <p>4. EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p>	<p>Increasing Monitoring and Oversight of Grant Recipients</p>
<p><u>Selection Process</u> – Ensure that proper procedures and scrutiny is provided during the recipient selection process.</p>	<p>Grants will be provided to New York and New Jersey per the Clean Water Act. Projects are chosen by the states in accordance with eligible project requirements and State priority ranking systems as required in CWA and DRAA. Contracts for the specified projects are competed via bid processes as required by the states and municipalities. Policies and Procedures: SRF Guidance on Managing Hurricane Sandy Funds and Activities and the Clean Water Act.*</p>	<p>1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.</p>	<p>Conducting Additional Levels of Review</p>

Program Name: Drinking Water State Revolving Fund (DWSRF) \$100 million⁴

Funded Activities: Drinking Water Infrastructure Financing. Grants fund state- managed SRF funds which provide loans (and some subsidies) for drinking water projects to protect public health and ensure compliance with the Safe Drinking Water Act (SDWA). However, unlike other SRF appropriations, the supplemental funds are provided for the purpose: “to reduce flood damage risk and vulnerability or to enhance resiliency to rapid hydrologic change or a natural disaster at treatment works ... and for other eligible tasks at such treatment works or facilities necessary to further such purposes”.⁵

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
<p><u>Verify spending</u> - Ensure expenditures match progress to date and are for appropriate purpose (Improper Payments) and appropriate measures taken to prevent waste, fraud and abuse.</p>	<p>Perform State Annual Review & conduct transaction testing on selected cash draws. Semi-Annual Administrative review of audits and open reviews. In addition, resolution of open audits will be accelerated. Policies and Procedures: EPA Order 5700.6A2 Policy on Compliance, Review and Monitoring, EPA Manual 2750 Audit Management Procedures.</p>	<ol style="list-style-type: none"> 1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA. 2. EPA should work with states to incorporate inspections as part of routine oversight. 3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans. 	<p>Conducting Additional Levels of Review</p> <p>Increasing Monitoring and Oversight of Grant Recipients</p> <p>Expediting Review and Resolution of Audit Findings</p> <p>Adopting Improper Payments Management Protocol</p>
<p><u>Performance & Results</u> – Ensure progress with workplan and environmental results/outcomes.</p>	<p>Review State Annual Report and conduct State Annual Review & review CBR (Clean Water Benefits Reporting System)/PBR (Drinking Water Benefits Reporting System) data. Policies and Procedures: 5700.6A2 Policy on Compliance, Review and Monitoring; EPA Order 5700.7 Environmental Results under EPA Assistance Agreements.</p>	<ol style="list-style-type: none"> 1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA. 2. EPA should work with states to incorporate inspections as part of routine oversight. 3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans. 4. EPA’s plan should include specific actions to identify states/projects at risk of not 	<p>Increasing Monitoring and Oversight of Grant Recipients</p>

⁴ SRF Notes a) Mechanism for CW & DW SRFs are similar but they implement different statutes and have some differences in eligibility, etc. b) EPA may also retain \$1 million of the total \$600 million for management and oversight c) States may choose to switch some funds from one SRF to the other.

⁵ Language taken from DRAA statute.

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
		meeting deadlines and establish procedures to assist states with projects not under contract/delayed.	
<u>Civil Rights</u> - Compliance with Title VI.	Provide certification of compliance with Title VI (Form 4700-4). Policies and Procedures: National administrative term and condition, "Civil Rights Obligations," included on all awards.	N/A	Conducting Additional Levels of Review
<u>OIG</u> - Ensure collaboration with the Office of the Inspector General.	EPA has identified a point of contact in OIG for all Hurricane Sandy related issues.	N/A	Continuing Collaboration with the Inspector General Community
<u>Grant Conditions</u> – Compliance with all terms and conditions associated with grant.	Semi-annual administrative review of compliance with grant terms and conditions. Policies and Procedures: EPA Order 5700.6A2 Policy on Compliance, Review and Monitoring.	<p>1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.</p> <p>2. EPA should work with states to incorporate inspections as part of routine oversight.</p> <p>3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.</p> <p>4. EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.</p>	Conducting Additional Levels of Review
<u>Appropriate Use</u> - Ensure all funds associated with the award are needed for applicable projects	Completion of annual ULO review and certification. Policies and Procedures: Resource Management Directive System No. 2520-03-P1 (Administrative Controls of Appropriated Funds); EPA Grants Policy Issuance (GPI)11-01 Managing Unliquidated	4. EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed.	Conducting Additional Levels of Review

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
	Obligations and Ensuring Progress under EPA Assistance Agreements (as amended by GPI 12-06 Timely Obligation, Award and Expenditure of EPA Grant Funds).		
<u>Tracking</u> – EPA will track the outlays and expenditures.	Creation of CFDA 66.483 - Disaster Relief Appropriations Act (DRAA) Hurricane Sandy Capitalization Grants For Drinking Water State Revolving Funds and new appropriations/funds code (E3S2 – CWSRF Sandy Supplemental.)*	4. EPA’s plan should include specific actions to identify states/projects at risk of not meeting deadlines and establish procedures to assist states with projects not under contract/delayed. 5. EPA should update its detection and reporting procedures to identify improper grant payments.	Increasing Monitoring and Oversight of Grant Recipients
<u>Timely Expenditure</u> – Additional procedures to ensure funds are used in a timely manner in the case where a waiver is granted for the two year expenditure requirement (Section 904(c)).	The estimated outlay/expenditure rates are based on the states’ needs and plans. (EPA will not be delaying the work) New Jersey and New York have indicated it could take many years to expend all the funds, given the time it takes to implement construction projects. The estimated outlays/expenditures are as follows: Year 1: 0%; Year 2: 2%; Year 3: 24%; Year 4: 21%; Year 5: 19%; Year 6: 11%; Year 7: 8%; Year 8: 7%; and Year 9: 8%. Policies and Procedures: SRF Guidance on Managing Hurricane Sandy Funds and Activities.*	3. EPA should utilize information in recipient monitoring databases to regularly provide reports to management on progress of projects and status of corrective action plans.	Increasing Monitoring and Oversight of Grant Recipients
<u>Selection Process</u> – Ensure that proper procedures and scrutiny is provided during the recipient selection process.	Grants will be provided to New York and New Jersey per the Safe Drinking Water Act. Projects are chosen by the states in accordance with eligible project requirements and State priority ranking	1. EPA should strengthen oversight of sub-recipients and develop a checklist that states can use to help ensure compliance with DRAA.	Conducting Additional Levels of Review

Risks Associated with Funded Activities	Mitigation Strategy	OIG Observations (Lessons Learned No. from Prior Report Review)	OMB Guidance Memo 13-071
	<p>systems as required in SDWA and DRAA. Contracts for the specified projects are competed via bid processes as required by the states and municipalities. Policies and Procedures: SRF Guidance on Managing Hurricane Sandy Funds and Activities and the Safe Drinking Water Act.*</p>		

Agency's Response to Draft Report




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

AUG 1 2013

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA-FY13-0231
"Internal Controls Lesson Learned for Hurricane Sandy Disaster Relief Appropriations
Act Funds," dated July 18, 2013

FROM: Stefan Silzer, Director
Office of Financial Management 

TO: Richard Eyermann, Acting Assistant Inspector General
Office of Audit

Thank you for the opportunity to respond to the information presented in the subject audit report. The U.S. Environmental Protection Agency agrees with the report suggestions and appreciates the Office of Inspector General acknowledging the agency's proactive steps to address them. If you have any questions regarding this response, please contact Adam Fett of my staff on 202-564-5314, or Hamilton Humes in the Office of Budget on 202-564-2835.

cc: Craig Hooks	Barbara Freggens	Matt King
Nanci Gelb	Adam Fett	Bonnie Gitlin
Howard Corcoran	Sandy Dickens	Marilyn Ramos
Maryann Froehlich	Nancy Stoner	Richard Eyermann
David Bloom	Mike Shapiro	Kevin Christensen
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Director, Office of Wastewater Management, Office of Water
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