



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL



Compliance with the law

EPA Complied With Improper Payments Elimination and Recovery Act Requirements

Report No. 18-P-0153

April 16, 2018



Report Contributors:

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Abbreviations

AFR	Agency Financial Report
CWSRF	Clean Water State Revolving Fund
DWSRF	Drinking Water State Revolving Fund
EPA	U.S. Environmental Protection Agency
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
U.S.C.	United States Code

Cover photo: Graphic illustrating how compliance with IPERA can result in a reduction in improper payments. (EPA OIG image).

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At a Glance

Why We Did This Project

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

This report addresses the following:

- *Compliance with the law.*

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Listing of [OIG reports](#).

EPA Complied With Improper Payments Elimination and Recovery Act Requirements

What We Found

The EPA complied with IPERA and OMB Memorandum M-15-02 requirements when reporting improper payments in its fiscal year 2017 Agency Financial Report (AFR). IPERA and OMB Memorandum M-15-02 established six mandatory steps for agency compliance:

Through compliance with IPERA, the EPA provides better assurance that efforts are being made to reduce improper payments.

- Publish an AFR or Performance and Accountability Report for the most recent fiscal year and post that reporting and any accompanying materials required by OMB on the agency website.
- Conduct a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. Section 3321 (if required).
- Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).
- Publish, and meet, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or Performance and Accountability Report.

In its fiscal year 2017 AFR, the EPA reported an estimated \$15.79 million of improper payments. We found that the EPA reported accurate and complete data. Also, the EPA's reported current reduction targets should assist in reducing future estimated improper payments. According to the fiscal year 2017 AFR, the information, data and analyses presented in the AFR provide assistance to the President, Congress and the public in evaluating the agency's yearly activities and accomplishments.

There are no recommendations for corrective action in this report.



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

THE INSPECTOR GENERAL

April 16, 2018

MEMORANDUM

SUBJECT: EPA Complied With Improper Payments Elimination and Recovery Act Requirements
Report No. 18-P-0153

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: Holly Greaves, Chief Financial Officer

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-FY18-0048.

You are not required to provide a written response to this final report because there are no recommendations. Should you choose to provide a final response, we will post your response 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.

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Purpose

The purpose of the audit was to report on the U.S. Environmental Protection Agency's (EPA's) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and to evaluate the accuracy and completeness of agency reporting.

Background

Inspectors General must annually determine whether agencies are in compliance with the six requirements identified in IPERA. Also, Office of Management and Budget (OMB) Memorandum M-15-02¹ states that Inspectors General may evaluate the accuracy and completeness of agency reporting.

IPERA requires agencies to conduct risk assessments of their programs or activities to determine whether they are susceptible to significant improper payments. This act defines significant improper payments as improper payments in the preceding year that may have exceeded the statutory threshold of both \$10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of program outlays, or \$100 million. IPERA defines an improper payment as:

- (A) means any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- (B) includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.

According to IPERA and OMB Memorandum M-15-02, 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 type of activity in its Agency Financial Report (AFR).

In its fiscal year (FY) 2017 AFR, the EPA reported an estimate of \$15.79 million in improper payments. Table 1 summarizes the risk level for improper payments for each of the EPA's programs.

¹ OMB Memorandum M-15-02, dated October 20, 2014, modified OMB Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*.

Table 1: Program risk level

Program	Low risk	Susceptible to significant improper payments
Commodities	X	
Contracts	X	
Clean Water State Revolving Fund (CWSRF)		X
Drinking Water State Revolving Fund (DWSRF)		X
Grants		X
Hurricane Sandy		X
Payroll	X	
Purchase Cards	X	
Travel	X	

Source: EPA FY 2017 AFR.

According to the EPA, four of the agency’s risk-susceptible activities—CWSRF, DWSRF, Grants and Hurricane Sandy—remain below statutory thresholds. According to the AFR, OMB deemed the CWSRF and DWSRF to be susceptible to significant improper payments. The Disaster Relief Appropriations Act of 2013 (Public Law 113-2) designated Hurricane Sandy funding as susceptible to significant improper payments. Grant payment activities were identified as susceptible to significant improper payments based on the results of a quantitative risk assessment performed in FY 2016 that identified improper payments above the statutory threshold.

Responsible Office

The Office of the Controller, within the Office of the Chief Financial Officer (OCFO), develops, manages and supports the agency’s federal financial management program by interpreting fiscal legislation, maintaining fiscal operations, and implementing governmentwide external reporting reforms. OCFO also provides financial services for the EPA and makes payments to the EPA grant recipients, contractors and other vendors. The office provides policy, reports and oversight essential for the financial operations of the EPA.

Scope and Methodology

We conducted this performance audit from November 2017 to March 2018 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.

The objectives of the audit were to determine whether the EPA is in compliance with IPERA and evaluate the accuracy and completeness of agency reporting. To determine whether the EPA complied with IPERA, we reviewed the EPA’s

FY 2017 AFR and accompanying materials. We interviewed staff at the EPA headquarters for OCFO, the Office of Administration and Resources Management’s Office of Grants and Debarment, and the Office of Water. We also interviewed OCFO staff from the Las Vegas Finance Center.

We gained an understanding of the processes, procedures and controls used for improper payment and recovery reporting across the EPA—including the CWSRF, DWSRF, Grants and Hurricane Sandy—and selected judgmental samples from each activity. We traced improper payments in our sample back to source documentation to test the accuracy of improper payment reporting in the EPA’s FY 2017 AFR.

For the CWSRF and DWSRF, we reviewed the transaction testing worksheets to verify compliance with EPA policies. We took steps to confirm the accuracy of both the Office of Grants and Debarment’s and Las Vegas Finance Center’s improper payment schedules to the EPA system-generated support data for grants. For EPA activities that are currently considered to be susceptible to significant improper payments, we reviewed a sample of funds returned, Program Evaluation Reports, and transaction testing reports and worksheets, to identify improper payments that were not reported.

We also used data systems, including the Grantee Compliance and Recipient Activity Database and Compass Data Warehouse. We verified the information in the systems to source documentation, and concluded that the information provided a reasonable basis for our findings and conclusions.

Prior Audit Coverage

We followed up on agency corrective actions from EPA OIG Report No. [17-P-0212](#), *EPA Complied With Improper Payment Legislation, but Testing Can Be Improved*, issued May 10, 2017. That report made one recommendation: “revise the annual guidance on improper payments reporting to include language requiring that 100 percent of all dollars associated with statistically selected samples are tested for improper payments.” The EPA reported the corrective action was completed on May 18, 2017.

Results

The EPA’s FY 2017 improper payment reporting complied with IPERA. IPERA established six requirements that must be met for agencies to be considered in compliance, and we found that the EPA complied with all six requirements and reported accurate and complete data. As a result, the EPA can demonstrate to the public that efforts are being made to reduce improper payments in the EPA’s programs. Table 2 shows the six IPERA requirements and what the EPA did regarding each requirement during FY 2017.

Table 2: EPA met the six requirements of IPERA

Requirement	Comply?	Description
Publish an AFR or Performance and Accountability Report for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website.	Yes	The EPA published the FY 2017 AFR on the agency website on November 15, 2017.
Conduct a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. Section 3321 (if required).	Yes	Risk assessments for the EPA's low risk programs (Commodities, Contracts, Payroll, Purchase Cards and Travel) were not required because the risk assessments were performed in prior years. Per the IPERA of 2010, the EPA is required to conduct a risk assessment for its low-risk programs once every 3 years.
Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Yes	<p>The EPA performed program statistical sampling for each of its four risk-susceptible programs, as follows:</p> <ul style="list-style-type: none"> • CWSRF • DWSRF • Hurricane Sandy • Grants <p>The Grants program is susceptible to significant improper payments due to exceeding IPERA thresholds for improper payments for the risk assessment conducted in FY 2016. The CWSRF and DWSRF programs were deemed susceptible to significant improper payments by OMB. The EPA reported improper payment estimates for these programs in Table 2.1 in the Payment Integrity section of the FY 2017 AFR.</p> <p>The Disaster Relief Appropriations Act of 2013 states that all funds received under that act are automatically deemed susceptible to significant improper payments. Since this act provides Hurricane Sandy aid, this program is deemed susceptible to significant improper payments. As a result, the EPA designed and implemented a statistical sampling plan for testing Hurricane Sandy expenditures. The EPA reported improper payment estimates for Hurricane Sandy funds in Table 2.1 in the Payment Integrity section of the FY 2017 AFR.</p>

Requirement	Comply?	Description												
Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required).	Not Required	<p>The EPA did not exceed the statutory threshold identified in IPERA of \$10 million and 1.5 percent of program outlays, or \$100 million, and therefore the corrective action plan is not required. Improper payment amounts and rates reported for risk-susceptible programs were:</p> <ul style="list-style-type: none"> • CWSRF: \$2.62 million, 0.18% • DWSRF: \$760,000, 0.06% • Hurricane Sandy: \$40,000, 0.28% • Grants: \$12.37 million, 0.72%² 												
Publish, and meet, annual reduction targets for each program assessed to be at risk and estimated for improper payments.	Yes	<p>The EPA published annual reduction targets for each of the four programs identified as susceptible to significant improper payments. The actual improper payment rate was less than the reduction target identified in the FY 2016 AFR for the following programs:</p> <table border="1" data-bbox="634 667 1263 827"> <thead> <tr> <th data-bbox="634 667 870 730">Payment stream</th> <th data-bbox="870 667 1084 730">Targeted rate (percent)</th> <th data-bbox="1084 667 1263 730">Actual rate (percent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="634 730 870 762">CWSRF</td> <td data-bbox="870 730 1084 762">1.43</td> <td data-bbox="1084 730 1263 762">0.18</td> </tr> <tr> <td data-bbox="634 762 870 793">DWSRF</td> <td data-bbox="870 762 1084 793">1.98</td> <td data-bbox="1084 762 1263 793">0.06</td> </tr> <tr> <td data-bbox="634 793 870 827">Hurricane Sandy</td> <td data-bbox="870 793 1084 827">1.5</td> <td data-bbox="1084 793 1263 827">0.28</td> </tr> </tbody> </table> <p>The EPA met the annual reduction targets for FY 2017 AFR reporting. However, the EPA did not publish a reduction target for the grants program in the FY 2016 AFR. FY 2017 was the first year that the EPA was required to publish an improper payment estimate for the Grants program.³</p>	Payment stream	Targeted rate (percent)	Actual rate (percent)	CWSRF	1.43	0.18	DWSRF	1.98	0.06	Hurricane Sandy	1.5	0.28
Payment stream	Targeted rate (percent)	Actual rate (percent)												
CWSRF	1.43	0.18												
DWSRF	1.98	0.06												
Hurricane Sandy	1.5	0.28												
Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained.	Yes	<p>The EPA reported gross improper payment rates of less than 10 percent for each program:</p> <ul style="list-style-type: none"> • CWSRF: 0.18% • DWSRF: 0.06% • Hurricane Sandy: 0.28% • Grants: 0.72% 												

Source: OIG analysis of EPA data.

Agency Response

We make no recommendations for agency corrective actions. We met with EPA management on March 1, 2018, to discuss the report. EPA management agreed with our conclusions and had no comments.

² The EPA exceeded the statutory threshold of \$10 million but did not exceed the 1.5 percent threshold of program outlays.

³ The EPA FY 2017 AFR provided that based on the quantitative risk assessment performed in FY 2016, the grants payment stream was determined to have exceeded the statutory threshold for significant improper payments. As a result, a valid statistical sampling methodology was developed to ensure accurate improper payment measurements. The EPA submitted the sampling methodology to OMB in September 2016 and began applying it during the FY 2017 AFR reporting cycle.

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