



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).*

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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.