



## UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

September 9, 2022

OFFICE OF THE  
CHIEF FINANCIAL OFFICER

### **MEMORANDUM**

**SUBJECT:** Response to the Office of Inspector General Report No. 22-P-0050, "*The EPA Was Not Compliant with the Payment Integrity Information Act for Fiscal Year 2021*," dated June 27, 2022

**FROM:** Faisal Amin, Chief Financial Officer  
Office of the Chief Financial Officer

**TO:** Sean W. O'Donnell, Inspector General  
Office of Inspector General

Thank you for the opportunity to respond to the issues and recommendations in the subject report. As stated in your final report, Recommendation 3 is considered resolved, and recommendations 1, 2, and 4 remain unresolved. The following is a summary of the U.S. Environmental Protection Agency's overall position on the unresolved recommendations.

### **AGENCY'S OVERALL POSITION**

#### **Recommendation 1**

For the Office of Inspector General's Recommendation 1, the Office of the Chief Financial Officer agrees to work with the Office of Mission Support's Office of Grants and Debarment to make the determination whether any of the OIG-identified questioned costs should be categorized as improper payments. In the event any costs are determined to be improper, the OCFO will recalculate the FY 2021 improper payment rate for the grants payment stream and report these results in the EPA's FY 2022 Agency Financial Report.

It is important to note that the grants payment stream was not considered susceptible to improper payments in FY 2021. This decision was in accordance with the Office of Management and Budget's Circular A-123, Appendix C (issued through M-21-19) guidance and supported by the OCFO's reporting of statistically valid improper payments sampling and unknown payments rates below the statutory threshold of 1.50 percent in the agency's FY 2018, FY 2019, and FY 2020 AFRs. In addition, the OIG reported that the EPA was compliant with improper payment regulations for FY 2018, FY 2019, and FY 2020. The M-21-19 guidance also states for programs not susceptible to improper payments (meaning the program is in Phase 1 of improper payment reporting), a finding of non-compliance by the agency's OIG does not automatically make a program susceptible to improper payments. As a result, the grants payment stream will not be considered susceptible to improper payments unless the recalculated FY 2021 improper payment rate for grants is above the 1.50 percent threshold.

If a recalculation of the FY 2021 improper payment rate for the grants payment stream exceeds the threshold for improper payments of 1.50 percent (as defined by M-21-19), the OCFO will recognize the grants payment stream as susceptible to improper payments. If the recalculation is below the threshold of 1.50 percent, the grants payment stream will remain in Phase 1, meaning that it is not susceptible to improper payments. As stated in M-21-19, Appendix C – Section II.C.3, agencies are automatically considered not susceptible to improper payments when the improper payments and unknown payments rate is below the statutory threshold and the agency’s respective OIG found the agency to be compliant with improper payment regulations the prior fiscal year.

#### Recommendation 2

The OCFO is currently updating our Standard Operating Procedures for Improper Payment Risk Assessments for each of the EPA’s payment streams. The OIG’s Recommendation 2.b states that the OCFO’s risk assessments should include:

*“An identification of which programs and activities with annual outlays exceeding the statutory threshold are included in each risk assessment.”*

The OCFO defines its programs by payment stream. All programs and activities with outlays greater than \$10 million, as per the statutory threshold, are included within one or more payment streams.

#### Recommendation 4

The OCFO agrees agency personnel involved in the statistical sampling review of improper payments should be trained on all applicable SOPs with a focus on incorporating the cost principles in title 2 of the Code of Federal Regulations, part 200, subpart E. The OGD will partner with the OCFO to strengthen the improper payment review process and to ensure the grants payment stream over time achieves full compliance with the Payment Integrity Information Act and the OMB’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) in part 200 of title 2 of the C.F.R. As such, the OMS’s OGD is committed to:

1. Sharing best practices, trends, and sample templates used to review, analyze, and resolve questioned costs. The OGD also will provide examples of the types of source documentation necessary to substantiate grant expenses, etc.
2. Collaborating with the OCFO to develop a multi-year transition plan to incorporate part 200 of title 2 of the C.F.R. as the basis for improper payments reviews for the grants payment stream by Spring 2023, including:
  - a. The OGD and OCFO will assess resources and full time equivalents needed to support the transition over a two-year period.
  - b. In the event the agency must perform a statistical sampling review of the grants payment stream, beginning in FY 2023:
    - i. The OCFO will continue to perform the initial improper payments review using its current three-pronged approach, sending all questioned costs to the OGD for further analysis and resolution to include the application of the OMB’s Cost Principles.

- ii. The OGD will leverage its Advanced Monitoring contract to perform full comprehensive reviews of a sample subset (15) of the OCFO's statistically selected improper payments reviews.
  - c. In Year 2, FY 2024, the OGD will increase the number of comprehensive reviews it performs by 20 percent.
3. Building the capacity of the Grants Administrative Staff (Grants Management Officers and Grant Specialists) to assist in conducting comprehensive reviews and resolving questioned costs.

Below are the agency's proposed corrective actions for the remaining unresolved recommendations.

### **AGENCY RESPONSE TO FINAL REPORT RECOMMENDATIONS**

<b>No.</b>	<b>Recommendation</b>	<b>High-Level Corrective Action(s)</b>	<b>Estimated Completion Date</b>
1	Review the OIG-identified questioned costs for the grants payment stream, determine the payment allowability, recover costs as appropriate, and recalculate the error rate.	<p><u>Agree.</u> The OCFO has provided the OIG-identified questioned costs to the OMS's OGD to determine whether the OIG-identified questioned costs are improper or proper payments, in accordance with the cost principles in title 2 of the C.F.R. part 200, subpart E.</p> <p>The OCFO will recalculate the FY 2021 improper payment rate to include any costs the OGD identifies as being improper and report this information in the FY 2022 AFR.</p>	11/15/2022
2	<p>Conduct off-cycle risk assessment, applying the Standard Operating Procedure Grants Improper Payment Review, dated September 2021, and include the risk assessments in the Agency's Fiscal Year 2023 Agency Financial Report, ensuring that the risk assessments contain:</p> <p>a. An assessment of all programs and activities with outlays greater than \$10 million.</p> <p>b. An identification of which programs and activities with annual outlays exceeding the</p>	<p><u>2a. &amp; 2b. Agree.</u> In FY 2023, the OCFO will conduct off-cycle risk assessments for each of the EPA's payment streams in accordance with the risk assessment factors stated in the Office of Management and Budget's Circular A-123, Appendix C guidance issued through M-21-19. The results of the off-cycle risk assessments will be reported in the FY 2023 AFR.</p>	11/15/2023

No.	Recommendation	High-Level Corrective Action(s)	Estimated Completion Date
	statutory threshold are included in each risk assessment.		
	c. A mechanism for identifying, accounting for, estimating, and reporting improper and unknown payments and for detailing efforts taken to prevent and reduce such payments.	2c. <u>Agree</u> . Additionally, the OCFO will update the Improper Payment Risk Assessment SOPs document to include language on the agency's process for identifying, accounting for, estimating, and reporting improper and unknown payments, along with the efforts taken to reduce such payments.	10/1/2022
4	Periodically train agency personnel on and provide completed course training certificates for:  a. The Standard Operating Procedure Grants Improper Payment Review, dated September 2021, which includes the Payment Integrity Information Act Review Checklist, as well as any updates, to emphasize the application of the cost-allowance principles and the adherence to the terms and conditions of the federal awards.	4a. <u>Agree</u> . Prior to the EPA performing a statistical sampling review of the grants payment stream, the OCFO and OGD will work together to ensure agency personnel involved in the review of the grants payment stream are trained and knowledgeable in the application of the cost principles in title 2 of the C.F.R., part 200, subpart E and the procedures outlined in the OCFO's SOP for Improper Payment Reviews. However, the full application of cost allowance principles and the adherence to the terms and conditions of the federal award will be managed by the OGD.	10/1/2022
	b. All standard operating procedures, as well as any updates, implemented for other payment streams.	4b. <u>Agree</u> . The OCFO will provide training on the annual Improper Payment Guidance provided to the EPA's offices responsible for the improper payment reporting for the agency's payment streams.	12/1/2022

### **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](mailto:leblanc.andrew@epa.gov) or (202) 564-1761.

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