



May 16, 2023

MEMORANDUM

SUBJECT: The EPA Complied with the Payment Integrity Information Act for Fiscal Year 2022
Report No. 23-P-0017

FROM: Sean W. O'Donnell 

TO: Faisal Amin, Chief Financial Officer

This is our report on the subject audit conducted by the U.S. Environmental Protection Agency Office of Inspector General. The project number for this audit was [OA-FY23-0041](#). This report contains no findings or recommendations. We conducted this audit to determine whether the EPA complied with the Payment Integrity Information Act of 2019, or PIIA, and related Office of Management and Budget, or OMB, guidance during fiscal year 2022. This audit additionally assessed whether the Agency's corrective actions in response to our FY 2021 audit satisfy the recommendations that we issued in a prior report. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

You are not required to respond to this report because this report contains no recommendations. 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.

This audit supports these EPA mission-related efforts:

- Compliance with the law.
- Operating efficiently and effectively.

This audit addresses a top EPA [management challenge](#):

- Managing business operations and resources.

Background

Congress enacted the PIIA on March 2, 2020, to improve efforts to identify and reduce governmentwide improper payments. The PIIA requires agencies to implement the Act in accordance with OMB guidance, as detailed in Appendix C, "Requirements for Payment Integrity Improvement," of OMB Circular A-123, *Management's Responsibility for Internal Control*, which is also titled OMB Memorandum M-21-19, *Requirements for Payment Integrity Improvement*, issued March 5, 2021. Appendix C of OMB Circular A-123 sets forth requirements for agencies and OIGs to comply with the PIIA. According to Appendix C, an agency must meet ten specific PIIA requirements to comply with the Act, as detailed in Table 1 on page 4 of this report.

The PIIA directs the head of each executive branch agency to periodically review all programs and activities—hereafter referred to collectively as “programs”—with annual outlays greater than \$10 million and to identify those that may be susceptible to significant improper payments. Agency heads must conduct these periodic reviews, referred to as *risk assessments*, at least once every three years. As described in Appendix C of OMB Circular A-123, these risk assessments can be either qualitative or quantitative but must reasonably determine whether a program is susceptible to significant improper payments. A *quantitative risk assessment* is a review of payments to formulate the overall estimated improper payment rate. A *qualitative risk assessment* is a review that may use questionnaire responses or other forms of data to identify the risk of improper payments.

According to OMB guidance, all program payments fall into one of three payment categories: proper, improper, or unknown. A *proper payment* is a payment made to the right recipient for the right amount, an *improper payment* is a payment made in an incorrect amount or to the wrong recipient, and an *unknown payment* is a payment that was made without sufficient documentation for the agency to determine whether the payment falls into the proper or improper category. Unknown payments must eventually be determined to be proper or improper, and an agency may be required to report those payments determined to be improper in future years. Appendix C of OMB Circular A-123 states that a program is susceptible to significant improper payments if the annual total improper and unknown payment amount exceeds the statutory threshold. The statutory threshold for a program is either (1) both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million.

The EPA has divided its programs into ten payment streams. If any of the EPA’s ten payment streams exceed \$10 million in annual outlays, the Agency is required to conduct a risk assessment for that stream at least once every three years. The Agency conducted risk assessments for eight programs in its FY 2021 reporting. The EPA was not required to conduct risk assessments for its programs in FY 2022.

The PIIA requires each agency’s inspector general to annually determine the agency’s compliance with the PIIA and to issue a report on that determination. Furthermore, Appendix C of OMB Circular A-123 requires that each inspector general evaluate the accuracy and completeness of the agency’s improper payments reporting; evaluate the risk assessments to determine if they adequately conclude whether the programs are likely to make improper and unknown payments above or below the statutory threshold; and recommend changes to the agency’s improper payment risk-assessment methodology if the OIG determines that a risk assessment incorrectly identified whether a program or activity was likely to make improper and unknown payments above or below the statutory threshold.

Responsible Office

The Office of the Chief Financial Officer, or OCFO, formulates the EPA’s annual budget and performance plan, coordinates the EPA’s strategic planning efforts, develops the EPA’s *Annual Performance Report* and *Agency Financial Report*, or AFR, and implements the Government Performance and Results Act.

The OCFO provides financial services for the EPA and makes payments to grant recipients, contractors, and other vendors. The OCFO is responsible for creating policies for, issuing reports on, and providing oversight of the EPA’s financial operations. The Office of the Controller, within the office of the OCFO, is responsible for implementing the PIIA. The Office of Controller develops, manages, and supports the Agency’s 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 December 2022 to May 2023 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 the internal controls necessary to satisfy our audit objectives.¹ In particular, we assessed the internal control components—as outlined in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*—significant to our audit objectives. Any internal control deficiencies we found are discussed in this report. Because our audit was limited to the internal control components deemed significant to our audit objectives, it may not have disclosed all internal control deficiencies that may have existed at the time of the audit.

To answer our objectives, we reassessed the Agency’s activity against Appendix C of OMB Circular A-123, which sets forth requirements for agencies and OIGs to comply with the PIIA. Appendix C requires that agencies proactively manage the payment integrity risk of their programs to prevent improper and unknown payments. It also states, “In combatting payment integrity risk, it is important to assess the agency’s controls and the control environment.”

We sought to obtain an understanding of the procedures, oversight, and controls that management put in place to identify and report improper payments and the controls surrounding the risk-assessment compilation. To accomplish this, we reviewed the EPA’s *Fiscal Year 2022 Agency Financial Report* and its accompanying materials, and we verified that the EPA posted the report on its website. We also interviewed OCFO staff to obtain an understanding of the processes, procedures, and controls used for improper payment detection and reporting across the EPA. Additionally, we reviewed the Agency’s Enterprise Audit Management System to determine the status of our prior PIIA audit recommendations.

Results

The EPA was compliant with the PIIA and related OMB guidance for its FY 2022 reporting. Appendix C of OMB Circular A-123 requires that each OIG report pertaining to PIIA compliance include a high-level summary that clearly states the agency’s overall compliance status. To be compliant with the PIIA for FY 2022 reporting, the EPA must publish and post improper payments information each year in annual financial statements and on its public website, conduct a risk assessment at least once every three years for those programs that have annual outlays greater than \$10 million, and determine whether those programs are susceptible to significant improper payments. As detailed in Table 1, we reviewed three of the ten compliance elements outlined in the PIIA compliance reporting table. Specifically, we verified that the EPA (1) published payment integrity information with the annual financial statement, (2) posted the annual financial statement and accompanying materials on the Agency’s website, and (3) conducted improper payment risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years.

The EPA was not required to meet the other seven compliance elements for FY 2022 reporting. The EPA was not required to and thus did not perform risk assessments for FY 2022 programs because it conducted

¹ An entity designs, implements, and operates internal controls to achieve its objectives related to operations, reporting, and compliance. The U.S. Government Accountability Office sets internal control standards for federal entities in GAO-14-704G, *Standards for Internal Control in the Federal Government*, issued September 10, 2014

risk assessments for its FY 2021 reporting. Although the Agency was not required to and did not perform risk assessments in FY 2022, the Agency erroneously reported in its FY 2022 AFR that it had performed risk assessments. Table 1 shows that the EPA met each of the applicable PIIA requirements for FY 2022.

Table 1: FY 2022 PIIA compliance reporting elements for the EPA’s ten payment streams

Compliance element	Commodities payment stream	Contracts payment stream	Clean Water SRF payment stream	Drinking Water SRF payment stream	Grants payment stream	Hurricane Sandy payment stream	Payroll payment stream	Purchase card payment stream	Travel payment stream	2018 Disaster Relief Funds payment stream
1a. Published payment integrity information with the annual financial statement	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
1b. Posted the annual financial statement and accompanying materials on the agency website	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2a. Conducted improper payment risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
2b. Adequately concluded whether the program is likely to make improper and unknown payments above or below the statutory threshold	*	*	*	*	*	*	*	*	*	*
3. Published improper and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement	*	*	*	*	*	*	*	*	*	*
4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement	*	*	*	*	*	*	*	*	*	*
5a. Published improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement	*	*	*	*	*	*	*	*	*	*
5b. Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate	*	*	*	*	*	*	*	*	*	*
5c. Developed a plan to meet the improper and unknown payment reduction target	*	*	*	*	*	*	*	*	*	*
6. Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement	*	*	*	*	*	*	*	*	*	*

Note: ✓ = Compliant. * = Not Applicable, meaning the EPA was not required to complete these compliance elements. SRF = State Revolving Fund.

Source: EPA Fiscal Year 2021 Agency Financial Report. (EPA OIG table)

The EPA Still Must Complete Corrective Actions to Meet the Intent of Two Prior Year PIIA Recommendations

In our prior PIIA audit, as detailed in OIG Report No. [22-P-0050](#), *The EPA Was Not Compliant with the Payment Integrity Information Act for Fiscal Year 2021*, dated June 27, 2022, we found that the EPA was

not compliant with improper payment reporting requirements. Specifically, the EPA conducted risk assessments for its FY 2021 reporting and determined that none of its programs or activities with annual outlays greater than \$10 million were susceptible to significant improper payments. However, we determined that the EPA’s risk assessments did not adequately conclude whether its programs were susceptible to significant improper payments because the EPA did not establish an adequate methodology for its risk assessments. The Agency’s risk-assessment process did not provide reasonable assurance that payment streams were not susceptible to improper and unknown payments.

In OIG Report No. 22-P-0050, we made four recommendations to the chief financial officer. Although the EPA agreed with all of our recommendations and it appeared that its corrective action plans met the intent of the recommendations, our December 2022 [response](#) to the Agency indicated that we planned to review the corrective actions to the recommendations more thoroughly in our FY 2022 audit.² In January 2023, the EPA recorded completion of Recommendations 1, 3, and 4 in its Enterprise Audit Management System.

As a result of our FY 2022 audit, we found that the corrective actions for Recommendations 1 and 4 met the intent of our recommendations. However, we found that the corrective actions for Recommendation 3, which the Agency completed in October 2022, did not meet the intent of our recommendation. The EPA’s planned corrective actions for Recommendation 2 are not due to be completed until November 2023. Table 2 outlines Recommendations 2 and 3 from OIG Report No. 22-P-0050.

Table 2: Prior report Recommendations 2 and 3

Recommendation number	Recommendation
2	Conduct an off-cycle risk assessment, applying the <i>Standard Operating Procedure Grants Improper Payment Review</i> , dated September 2021, and include the risk assessments in the Agency’s <i>Fiscal Year 2023 Agency Financial Report</i> , ensuring that the risk assessments contain: <ol style="list-style-type: none"> a. An assessment of all programs and activities with outlays greater than \$10 million. b. An identification of which programs and activities with annual outlays exceeding the 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.
3	For payment streams other than the grants payment stream, update standard operating procedures so that they establish a sufficient methodology for programs and activities with outlays of more than \$10 million to adequately conclude whether they are susceptible to significant improper payments. The standard operating procedure should identify which programs or activities are included.

Source: OIG Report No. 22-P-0050. (EPA OIG table)

For Recommendation 2 in OIG Report No. 22-P-0050, we recommended that the Agency perform an off-cycle risk assessment, applying the *Standard Operating Procedure Grants Improper Payment Review*, which was updated in September 2021. This procedure establishes the statistical sampling review process for payments to grant recipients. The EPA stated in an April 2023 meeting that its understanding was that if the recalculated error rate for improper payments exceeded the statutory threshold of 1.50 percent, the Agency would need to conduct a quantitative risk assessment. However, because the recalculated error rate of 1.41 percent did not exceed the threshold of 1.50 percent, the Agency plans to not use the September 2021 standard operating procedure. Instead, it plans to conduct a qualitative risk assessment for FY 2023 by administering questionnaires. The EPA has until November 2023 to complete its corrective

² EPA Inspector General Memorandum, *Response to Planned Corrective Actions for Office of Inspector General Report No. 22-P-0050, The EPA Was Not Compliant with the Payment Integrity Information Act for Fiscal Year 2021*, issued June 27, 2022, issued December 21, 2022.

actions for Recommendation 2, and we will review the Agency's corrective actions after it completes its grants payment stream risk assessment for its FY 2023 improper payments reporting.

According to the EPA, it addressed Recommendation 3 in OIG Report No. 22-P-0050 in October 2022 by updating its standard operating procedure, *Payment Integrity Qualitative Risk Assessments*, for payment streams other than the grants payment stream. However, this update did not fully meet the intent of our recommendation. The standard operating procedure was missing program-specific risk methodologies to adequately determine whether a payment stream is susceptible to significant improper payments. In an April 2023 meeting, the Agency stated that it will take OIG suggestions under advisement and will update the standard operating procedure to address some of our concerns. We will review the EPA's implementation of corrective actions for Recommendation 3 after the Agency completes its risk assessments for the payments streams other than grants for its FY 2024 reporting.

Conclusions

Based on our audit, the Agency was in compliance with the required elements of Appendix C of OMB Circular A-123. The three required Appendix C compliance elements are the (1) publishing of payment integrity information with the annual financial statement, (2) posting of the annual financial statement and accompanying materials on the Agency's website, and (3) conduct of improper payment risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years. We determined that the EPA complied with the PIIA in FY 2022. We will evaluate EPA's implementation of corrective actions in our FYs 2023 and 2024 compliance audits.

Agency Response and OIG Assessment

We provided a draft of this report to the Agency for review. Because there were no findings or recommendations, the EPA was not required to provide a response and did not do so.

cc: Michael S. Regan, Administrator
Janet McCabe, Deputy Administrator
Dan Utech, Chief of Staff, Office of the Administrator
Wesley J. Carpenter, Deputy Chief of Staff for Management, Office of the Administrator
Andrew LeBlanc, Agency Follow-Up Coordinator
Susan Perkins, Agency Follow-Up Coordinator
Jeffrey Prieto, General Counsel
Tim Del Monico, Associate Administrator for Congressional and Intergovernmental Relations
Maria Michalos, Acting Associate Administrator for Public Affairs
Stefan Martiyan, Director, Office of Continuous Improvement, Office of the Chief Financial Officer
Michael Benton, Audit Follow-Up Coordinator, Office of the Administrator
Carol Terris, Deputy Chief Financial Officer
Lek Kadeli, Associate Chief Financial Officer
Meshell Jones-Peeler, Controller
Adil Gulamali, Deputy Controller
Brain Webb, Director, Policy, Training, and Accountability Division, Office of the Controller
Nikki Wood, Chief, Management, Integrity and Accountability Branch; Policy, Training, and Accountability Division, Office of the Controller
José Kercado, Audit Follow-Up Coordinator, Office of the Controller