

IMPROPER PAYMENTS INFORMATION ACT OF 2002 REPORTING DETAILS

I. RISK ASSESSMENTS: To implement the Improper Payments Information Act of 2002 (IPIA) requirements, the Agency reviewed and sampled disbursements made in the highest risk susceptible inventories. EPA determined that its programs did not have “significant erroneous payments,” defined by the IPIA as payments exceeding \$10 million and 2.5% of program payments. Because the Clean Water and the Drinking Water State Revolving Funds (SRFs) are former Section 57 programs, EPA was required to submit an IPIA corrective action plan for them. The Agency’s corrective action proposed to reduce the error rate of improper payments in the SRFs from 0.51 percent to 0.30 percent over a five-year period. By the end of FY 2005, EPA surpassed the FY 2008 target of 0.30 percent. The error rates for these two programs were as follows:

Program: Clean Water and Drinking Water SRFs

Fiscal Year	Outlays	Erroneous Payments	Error Rate
2004	\$2.1 billion	\$10.3 million	0.49 percent
2005	\$2.0 billion	\$3.0 million	0.15 percent
2006	\$2.3 billion	\$3.5 million	0.15 percent
2007	\$2.3 billion (est.)	\$1.64 million	0.07 percent

II. STATISTICAL SAMPLING PROCESS: Based on having low error rates and less than \$10 million in erroneous payments for two consecutive years (FY 2005 - 2006), OMB has approved relief from annual statistical sampling and reporting requirements for the Clean Water and Drinking Water SRF Programs. EPA will need to conduct a risk assessment on these programs in three years (FY 2010), or may be required to re-initiate measurement activities if there are any substantial changes to the program (legislation, funding, etc.) that may impact payment accuracy.

III. CORRECTIVE ACTION PLANS: In order to meet OMB’s objectives, EPA initially conducted additional risk assessments by forming four subgroups with expertise in grants, contracts, payroll, and travel/purchase credit cards to review internal controls, identify and measure high risk areas, and develop corrective action plans for each subject area. Updated planned actions in each of the areas are as follows:

A. Grants: As described in Section II above, EPA was granted relief from annual statistical sampling of direct and subrecipient SRF payments. Since FY 2006, the Agency tracks erroneous payments by grant recipient in the Grantee Compliance Database.

During FY 2005, EPA performed an erroneous payments review for calendar year (CY) 2004 using judgmental risk-based sampling to select 267 grant recipients for administrative reviews including 111 non-profit grantees. Nineteen of the non-profit grantee reviews identified potential erroneous payments. In FY 2006, the Agency completed its risk-based judgmental CY 2005 sample of 99 non-profit recipient reports - 24 identified potential erroneous payments. Results of both years are provided in the table below. Additionally in FY 2006, EPA introduced a new statistical sampling approach for the review of CY 2006 non-profit grantee monitoring/audit reports for erroneous payments.

EPA will report updated information on the appeal process results (costs still in recipient appeal) in the FY 2008 PAR. The Agency also reports on these results for the Improved Financial Management Initiative of the President's Management Agenda.

Non-Profit Grantees Review/Audit Results	CY 2004 Review	CY 2005 Review	CY 2006 Review
All potential erroneous payments cited	\$650,799	\$1,016,967	\$563,195
Questioned costs determined allowable	\$224,977	\$217,418	\$64,597
Actual erroneous payments (unallowable costs)	\$18,755	\$57,791	\$10,476
Costs that have been recovered	\$18,755	\$57,791	\$10,476
Costs still in recipient appeal process	\$407,067	\$656,243	\$488,122
Percent of erroneous payments	0.21 percent	0.29 percent	0.036 percent

B. Contracts: EPA continues to take appropriate action as needed to reduce or eliminate improper payments. The appropriate Contracts Officer Representatives or On Scene Coordinators are notified of all improper payments discovered. In January 2003, EPA implemented a monthly Improper Contracts Payment Report. The report captures the number of improper payments per month and provides information on each improper payment including the reason and recovery status. In FY 2006, the Agency received final Recovery Audit Report – the audit reviewed 376,000 small purchase and contract payment transactions worth \$6.5 billion. The Audit Recovery contractor reviewed 100,471 contract payments totaling \$4.3 million and found only 4 erroneous payments (a 0.01 percent error rate). EPA has addressed all audit recommendations cited in the Recovery Audit Report.

Results of EPA's Improper Contract Payments Report

Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2003 *	25 (of 24,056)	\$206.1	0.02 percent
2004	21 (of 24,886)	\$748.5	0.08 percent
2005	21 (of 26,305)	\$121.5	0.01 percent
2006	25 (of 28,098)	\$406.5	0.03 percent
2007	14 (of 29,828)	\$65.3	0.01 percent

- * FY 2003 only included data from January through September.
- For all five years, all erroneous payments were fully recovered.

Based on EPA's excellent performance and effective controls, the Agency does not plan future externally conducted recovery audits – a formal Recovery Audit is not cost effective for the contractor who is paid based on erroneous payments found/recovered. The Agency will continue using the monthly Improper Contracts Payment Report as the tool for monitoring contract payments.

C. Commodity Payments: Since no high risk areas have been identified, no corrective action is required. EPA continues to take appropriate action as needed to reduce or eliminate any improper payments. The commodity payments were included in the FY 2006 completed Recovery Audit described above in Section III. B. Contracts. The Recovery Audit contractor

reviewed 275,185 invoices paid totaling \$2.2 million and found 31 improper payments (less than 0.01 percent error rate). The improper commodity payments were attributed to product returns not deducted, duplicate payments due to keypunch errors and vendor number errors, cash discounts not taken, and state and local tax exemptions not taken. As of January 2006, the Agency consolidated its commodity payments operation to one Finance Center. The consolidation achieves a higher degree of internal control, consistency and oversight. The consolidation plus several other corrective actions addressed the Recovery Audit Report recommendations. In preparation for replacing the core financial system, EPA reviewed the vendor file to ensure the accuracy of all vendor codes.

The Agency implemented a commodities payment tracking mechanism in January 2004 to gather improper payment data. This tracking system provides the data for a monthly Improper Commodities Payment Report which includes information on each improper payment. Given the low rate of erroneous payments, EPA does not plan future externally conducted recovery audits – a formal Recovery Audit is not cost effective for the contractor who is paid based on erroneous payments found/recovered. The Agency will continue using the monthly Improper Commodities Payment Report as the tool for monitoring these payments.

Results of EPA’s Improper Commodity Payments Report

Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2005	40 (of 42,698)	\$416.0	0.17 percent
2006	102 (of 50,665)	\$695.5	0.23 percent
2007	63 (of 45,859)	\$176.5	0.06 percent

D. Payroll: By December 31, 2004, the Payroll Workgroup completed a comprehensive review of internal controls and submitted recommendations to reduce improper payments. Additionally, in FY 2005, the workgroup developed a corrective action plan/best practices. EPA implemented these corrective actions before the Agency transferred the payroll disbursement function to the Department of Defense in May 2006. EPA now benefits from the combination of both agencies’ internal controls.

E. Travel Card/Purchase Card: The Agency continues to monitor the travel and purchase charge card transactions in accordance with the Agency policies and procedures. In addition, EPA monitors the issuance of purchase cards to ensure that spending limits and span of control are kept to a minimum. The Agency implemented a monitoring program that requires each of the Senior Resource Officials to perform biennial reviews of the purchases made within their program offices. These reviews ensure the integrity of the purchase card program. EPA continues to use the additional controls implemented under the FY 2006 Katrina Stewardship plan:

- Notify card holder’s approving official via email for each purchase – daily;
- Conduct reviews within 60 days of transactions; and
- Review Agency Atypical Report which identifies airline ticket purchase without authorizations.

IV. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK FY 2004 – FY 2008
(Dollars in millions)

Program	FY 2004 Outlays	FY 2004 IP %	FY 2004 IP \$	FY 2005 Outlays	FY 2005 IP %	FY 2005 IP \$	FY 2006 Outlays	FY 2006 IP %	FY 2006 IP \$	FY 2007 Outlays	FY 2007 IP %	FY 2007 IP \$	FY 2008 Outlays	FY 2008 IP %	FY 2008 IP \$
Clean Water and Drinking Water SRFs	\$2,182 (actual)	0.49	\$10.3	\$1,963 (actual)	0.45 target 0.15 actual	\$3.0	\$2,303 (actual)	0.40 target 0.15 actual	\$3.5	\$2,344 (est.)	.035 target 0.07 actual	\$1.6	\$1,565 (est.)	0.30	\$4.7 (est.)

V. RECOVERY AUDIT PROGRAMS: The Agency hired a contractor, Business Strategy, Inc (BSI), to conduct the recovery audit. BSI provided their final report and recommendations in FY 2006. As reported above in the Contracts and Commodities sections, BSI did not uncover any material transactions that were erroneously paid.

During FY 2006, EPA implemented cost effective corrective actions to address BSI recommendations. These actions strengthened payment processes and internal controls to help prevent further occurrences.

VI. ENSURING MANAGEMENT ACCOUNTABILITY: As previously outlined in the corrective action plans, the Agency continues to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits for the two SRFs, our largest grant programs, is reported semi-annually to management in both the Office of Water and the Office of the Chief Financial Officer. In all cases action is taken with the appropriate officials to ensure improper payments are recovered and to avoid future improper payments. Similar monitoring through reports is done for the contracts and commodities payment areas.

VII. INFORMATION SYSTEMS AND INFRASTRUCTURE: The Agency's information systems are sufficient to reduce improper payments to targeted levels.

VIII. STATUTORY AND REGULATORY BARRIERS: None.

IX. CONCLUSIONS: EPA met all of the requirements and received a Green Status on Eliminating Improper Payments as of June 30, 2006. In FY 2006, the Agency demonstrated a low level of risk for the SRF programs through statistical sampling of direct payments, targeted state reviews, statistical sampling of subrecipient payments in two states, and analysis of subrecipient payments in Texas Single Audit Act report. In FY 2007, based on the guidelines contained in Appendix C to OMB Circular A-123, Part I, Section K (program has documented a minimum of two consecutive years of improper payments that are less than \$10 million annually), EPA requested relief from the annual statistical sampling and reporting requirements of the IPIA for the Clean Water and Drinking Water SRFs. On October 5, 2006, OMB granted the Agency's request to waive statistical testing of SRF transactions for fiscal years 2007-2009. EPA will be required to resume statistical assessment and report on the SRF programs in the FY 2010 PAR. OMB's approval of the three-year waiver is contingent on no significant legislative or programmatic changes, significant funding increases and/or any change that would result in substantial program impact. If such changes occur, the Agency must reinstate risk assessments and comply with IPIA reporting requirements if there is significant risk of improper payments occurring.

For FY 2008, EPA committed to the following activities:

- Report on improper payments in the PAR;
- Continue to monitor commercial payments to ensure accuracy and characterize monitoring efforts annually in the PAR; and
- Brief OMB, as needed, depending on program changes, legislative and/or funding revision, or anything that development from EPA's monitoring.

¹ This completion date is based on various assumptions about the future and, therefore, any changes to the assumptions would impact the schedule. For example, OECA is assuming that no major changes to the design of ICIS will be required for the batch states. This scenario assumes FY 2008 and FY 2009 extramural funding for ICIS at the President's budget level of \$6.7 million. For FY 2010 and beyond it is assumed that annual funding will rise to \$7.5 million. If the Agency assumes the President's budget level of \$6.7 million continues in FY 2010 and beyond, the schedule will likely move five or more quarters into the future, with a shut down date for PCS delayed until 2015. Further, as with any project, extended timelines for completion add risk to the project, and predictions about when the project will be completed become more speculative.

² PART results – Source OMB Website Expect More.Gov and OIG analysis of PART results.

³ PART results – Source OMB Website Expect More.Gov and OIG summary of PART results.

⁴ OIG conclusion based on PART results.

⁵ PART results – Source OMB Website Expect More.Gov and OIG analysis of PART results.

⁶ EPA, OPEI, ESD website, Developing Program Evaluation Capacity <http://www.epa.gov/evaluate/about_environe.htm>

⁷ Office of Administrator Functional Statement, 14-16.

⁸ Information provided by OPEI in response to an OIG questionnaire on EPA's program evaluation activities, w/p J-6.2a-1 (question 9) for the Macro Risk Assessment Assignment 2007-520.

⁹ Information provided by OPEI in response to an OIG questionnaire on EPA's program evaluation activities, w/p J-6.2a-1 (question 9) for the Macro Risk Assessment Assignment 2007-520.

¹⁰ OIG conclusion.

¹¹ *2006-2011 EPA Strategic Plan, Charting Our Course.*

¹² OIG Conclusion based on PART analysis and program evaluation analysis.

¹³ Office of Environmental Information (OEI) FY 2005 Integrity Act Report, *Implementation of Data Standards*, Attachment 2, Page 2, regarding OEI's weaknesses for an October 5, 2005, Management Integrity Meeting.

¹⁴ U.S. Environmental Protection Agency *Performance and Accountability Report*, Fiscal Year 2005, Appendix C, Data Quality, C18.

¹⁵ *Promising Techniques to Improve Drinking Water Laboratory Integrity and Reduce Public Health Risk*, OIG Report No. 2006-P-00036, September 21, 2006.

¹⁶ U.S. Environmental Protection Agency *Performance and Accountability Report*, Fiscal Year 2005, Appendix C, Data Quality, C18.

¹⁷ U.S. Environmental Protection Agency *Performance and Accountability Report*, Fiscal Year 2005, Appendix C, Data Quality, C18.

¹⁸ *Lessons Learned: EPA's Response to Hurricane Katrina*, OIG Report No 2006-P-00033, September 14, 2006.

¹⁹ *EPA Summary of Emissions Factors Improvements Projects Fact Finding Survey*, June 2004, 1.

²⁰ GAO Report No. GAO-01-46 *EPA Should Improve Oversight of Emissions Reporting by Large Facilities*, April 2001, 3.

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- ²¹ EPA *Summary of Emissions Factors Improvements Projects Fact Finding Survey*, June 2004, table 2.
- ²² EPA *Can Improve Emissions Factors Development and Management, At a Glance*.
- ²³ OIG Report No. 2006-P-00017, 15-24.
- ²⁴ OIG Report No. 2006-P-00017, 15-24; Memorandum: Inspector General’s Candidates for Fiscal 1996 Weaknesses, To: Sallyanne Harper, Acting Chief Financial Officer, Attachment 2.
- ²⁵ EPA *Can Improve Emissions Factors Development and Management*, OIG Report No. 2006-P-00017, At a Glance.
- ²⁶ OIG Report No. 2006-P-00017, At a Glance.
- ²⁷ OIG Report No. 2006-P-00017, At a Glance.
- ²⁸ “Procedures for Preparing Emission Factor Documents,” EPA-454/R-95-015 revised, Office of Air Quality Planning and Standards, Office of Air and Radiation, U.S. Environmental Protection Agency, November 1997,.8; Introduction to AP-42, Volume 1, Fifth Edition – January 1995, 4-5.
- ²⁹ *3.0 Options for Revising Factor Quality Assessment* prepared by MACTEC for Emission Factors and Policy Application Group, EMAD, OAQPS, OAR, August 2004, 2-4.
- ³⁰ E-mail Response from Indiana Department of Environmental Management, September 22, 2005.
- ³¹ E-mail Response from Indiana Department of Environmental Management, September 22, 2005.
- ³² EPA *Can Improve Emissions Factors Development and Management*, OIG Report No. 2006-P-00017, 32.
- ³³ Document prepared for OIG, by Emission factors and Policy Application Group, EMAD, OAQPS, OAR, January 6, 2005; OIG Report No. 2006-P-00017, 35.
- ³⁴ OIG Report No. 2006-P-00017, 35, note 1.
- ³⁵ EPA Science Advisory Board “Minutes from the EPA Science Advisory Board Risk and Technology Review Consultative Panel Public Teleconference”, December 19, 2006 3; http://www.epa.gov/sab/panels/consul_risk_and_tech_assessment_plan.htm>.
- ³⁶ OIG Report No. 2006-P-00017, 26, 35, note 1.
- ³⁷ OIG Report No. 2006-P-00017, 25.
- ³⁸ OIG Report No. 2006-P-00017, 25.
- ³⁹ EPA’s Office of Air Quality Planning & Standards, *The OAQPS Quality Management Plan*, October 2006; <<http://oaqpswww.epa.gov/oaqpsprograms/oaqpsqual.html>>.
- ⁴⁰ EPA’s Office of Air Quality Planning & Standards, *The OAQPS Quality Management Plan*, October 2006, section 1, fifth paragraph; <<http://oaqpswww.epa.gov/oaqpsprograms/oaqpsqual.html>>.
- ⁴¹ Emissions Factors and Policy Applications Center, *Emissions Factors and Policy Application Center Highlights for 2006*, January 2007; <<http://www.epa.gov/ttn/chief/efpac/efpachilites.html>>.
- ⁴² OIG Report No. 2006-P-00017, At a Glance.
- ⁴³ OIG Report No. 2006-P-00017, 17-19, 23–25: OIG opinion.
- ⁴⁴ U.S. EPA Strategic Workforce Plan FY 2006, March 2006.
- ⁴⁵ The President’s Management Agenda, Fiscal Year 2002, 11-15.
- ⁴⁶ EPA Performance Accountability Report,205-206.

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- ⁴⁷ EPA Performance Accountability Report, 205-206.
- ⁴⁸ E-mail correspondence from OARM/OHR/HCMD/HCPB, March 14, 2007, March 19, 2007, March 20, 2007, and March 26, 2007; EPA Human Capital Management FY07 Q2 Scoring Preliminary Summary; EPA Human Capital FY01 Q1 Summary (Talent/Strategic Alignment, Item #4a); EPA Mission Critical Occupations Selection Report, September 2006.
- ⁴⁹ E-mail correspondence from OARM/OHR/HCMD/HCPB, March 21, 2007; Strategic Workforce Planning Handout from OARM's October 24, 2006 Human Resource Council Meeting; Human Capital PMA Talking Points for the Deputy Administrator December 7, 2006.
- ⁵⁰ EPA Performance Accountability Report, 205-206.
- ⁵¹ EPA Performance Accountability Report, 205-206.
- ⁵² EPA Everyday Choices: Opportunities for Environmental Stewardship, December 2005.
- ⁵³ EPA [Innovating for Better Environmental Results: A Strategy to Guide the Next Generation of Innovation at EPA](#), April 2002.
- ⁵⁴ *Partnership Programs May Expand EPA's Influence*, OIG Report No. 2007-P-00003, At a Glance.
- ⁵⁵ *Performance Track Could Improve Program Design and Management to Ensure Value*, OIG Report No. 2007-P-00013, At a Glance.
- ⁵⁶ Environmental Protection Agency 2008 Annual Performance Plan and Congressional Justification, <<http://www.epa.gov/ocfo/budget/2008/stag.pdf>>
- ⁵⁷ *Much Effort and Resources Needed to Help Small Drinking Water Systems Overcome Challenges*, OIG Report No. 2006-P-00026.
- ⁵⁸ *EPA's Allowing States to Use Bonds to Meet Revolving Fund Match Requirements Reduces Funds Available for Water Projects*, OIG Report No. 2007-P-00012.
- ⁵⁹ E-mail from OEI, *Total Dollars for Major IT Investments in the Development Phase of the System Life Cycle*, March 31, 2006.
- ⁶⁰ GAO Report No.06-184, *Financial Systems Modernization*, March, 2006, 3.
- ⁶¹ GAO Report No. GAO/AIMD-96-64, *Information Technology Investment - Agencies Can Improve Performance, Reduce Costs, and Minimize Risks*, September 1996, 4-5.
- ⁶² *EPA Needs to Improve Oversight of Its Information Technology Projects Report*, OIG Report No. 2005-P-00023, September 14, 2005, 4-5.
- ⁶³ EPA Operational Analysis Guidance, Version 1.0, April 21, 2006 <<http://intranet.epa.gov/cpic/evm/cpic-oa-guidance-o42106.doc>>.
- ⁶⁴ System Life Cycle Management (SLCM) Policy <<http://intranet.epa.gov/oei/imitpolicy/qic/ciopolicy/2100.5.pdf>>.
- ⁶⁵ E-mail from EPA official, April 7, 2007, responding to OIG 2006 management challenge memo.
- ⁶⁶ OMB Memorandum M-05-23, *Improving Information Technology (IT) Project Planning and Execution*, August 4, 2005.
- ⁶⁷ E-mail from EPA representative, March 29, 2007, with attached EPA FY07 2nd Qtr High Risk Report.
- ⁶⁸ E-mail from EPA representative, March 29, 2007, with attached EPA FY07 2nd Qtr High Risk Report.
- ⁶⁹ OIG Interview with EPA Program Office on March 15, 2007.
- ⁷⁰ System Life Cycle Management Procedure <http://intranet.epa.gov/otop/policies/Extended_DraftProcedures.pdf>.
- ⁷¹ System Life Cycle Management Procedure.

⁷² *Audit of EPA's Fiscal 2006 and 2005 Consolidated Financial Statements*, OIG Report No. 2007-1-00019, November 15, 2006, Attachment 3.

⁷³ EPA Earned Value Management Procedures < <http://intranet.epa.gov/cpic/evm/evm-procedures-draft.doc>>.

⁷⁴ E-mail from OEI official, April 7, 2007, responding to OIG 2006 management challenge memo.

⁷⁵ *Improved Management Practices Needed to Increase Use of Exchange Network (Discussion Draft Audit Report)* OIG Audit Report Assignment No. 2006-000212, dated April 2007.

⁷⁶ *Opportunities to Improve Data Quality and Children's Health through the Food Quality Protection Act*, OIG Report No. 2006-P-00009, January 10, 2006.

⁷⁷ *Monitoring Needed to Assess Impact of EPA's Clean Air Mercury Rule on Potential Hotspots*, OIG Report No. 2006-P-00025, May 15, 2006.

⁷⁸ *EPA's Management of Interim Status Permitting Needs Improvement to Ensure Continued Progress*, OIG Report No. 2007-P-00005, December 4, 2006.

⁷⁹ *EPA's Responses to Major Management Challenges 08 CJ, Final*, February 2, 2007.

⁸⁰ Office of Management and Budget Memorandum M-06-15, *Safeguarding Personally Identifiable Information*, May 22, 2006.

⁸¹ Office of Environmental Information Functional Statement, Office of Information Collection, Records, FOIA, and Privacy Branch.

⁸² Review of EPA's Protection of PII & Privacy Program, Audit No. 2007-175, Working Paper M-3, regarding *Summarization of Macro-Risk Assessment Objective-3 Policy – Privacy*.

⁸³ Review of EPA's Protection of PII & Privacy Program, Audit No. 2007-175, Working Paper I-1, regarding *Privacy Program--Policy Evaluation*.

⁸⁴ Review of EPA's Protection of PII & Privacy Program, Audit No. 2007-175, Working Paper K-1, regarding *Privacy Program--Monitoring Evaluation*.

⁸⁵ Review of EPA's Protection of PII & Privacy Program, Audit No. 2007-175, Working Paper K-1, regarding *Privacy Program--Monitoring Evaluation*.

⁸⁶ Review of EPA's Protection of PII and Privacy Program, Audit No. 2007-175, Working paper M-2, regarding Documentation of Privacy Interview Responses.