



OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Evaluation Report

# EPA Can Improve Its Oversight of Audit Followup

Report No. 2007-P-00025

May 24, 2007

**Report Contributors:**

Susan Barvenik  
Laura Tam  
Ira Brass  
Dan Engelberg  
Linda Fuller  
Renee McGhee-Lenart  
Dan Cox  
Tim Roach

**Abbreviations**

AFC	Audit Followup Coordinator
AFO	Audit Followup Official
AMO	Audit Management Official
AO	Action Official
CFO	Chief Financial Officer
EPA	U.S. Environmental Protection Agency
IGOR	Inspector General Operations and Reporting System
MATS	Management Audit Tracking System
OCFO	Office of the Chief Financial Officer
OECA	Office of Enforcement and Compliance Assurance
OIG	Office of Inspector General
OMB	Office of Management and Budget
OW	Office of Water
WET	Whole Effluent Toxicity



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

The Office of Inspector General (OIG) undertook this review to determine (1) the status of corrective actions responding to OIG report recommendations for selected water reports, and (2) how complete and up-to-date is the Management Audit Tracking System (MATS) report information for selected OIG water reports.

## Background

Audit followup is essential to good management and is a shared responsibility of agency managers and audit organizations. The U.S. Environmental Protection Agency (EPA) has audit followup procedures and designated officials who manage this process. EPA is required to report to Congress on audit followup, including any reasons for delays in taking corrective actions that have not been implemented within 1 year of issuing an audit report.

**For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.**

**To view the full report, click on the following link:**  
[www.epa.gov/oig/reports/2007/20070524-2007-P-00025.pdf](http://www.epa.gov/oig/reports/2007/20070524-2007-P-00025.pdf)

## ***EPA Can Improve Its Oversight of Audit Followup***

### **What We Found**

EPA is generally undertaking actions for the nine water-related reports in our review— seven directed to the Office of Water (OW) and two directed to the Office of Enforcement and Compliance Assurance (OECA). However, several actions in response to individual recommendations were delayed past milestone dates agreed to by the OIG.

Both program offices and the Office of the Chief Financial Officer (OCFO), in its oversight role, can do more to monitor the audit followup process and ensure that timely and appropriate corrective actions are taking place. OCFO's annual audit followup reporting to Congress did not present required information on specific audit recommendations or reasons for delays in taking corrective actions. The Agency's audit tracking system, MATS, was also incomplete and contained mistakes. While OW's official files were generally complete, OECA did not have files for OIG reports prior to January 2006, including the two reports we reviewed. Both OW and OECA did not follow the processes specified in EPA Order 2750 for certifying the completion of implementing corrective actions. The OIG will also improve its followup on audit and evaluation reports.

### **What We Recommend**

We recommend that OW and OECA implement EPA Order 2750 and biannually review audit management information for accuracy and completeness. We also recommend that OW and OECA follow the certification process for closing out reports, maintain a list of corrective actions taken, and obtain OIG approval for significant changes to corrective action plans.

We recommend that the Chief Financial Officer take several steps, including:

- Monitoring EPA Order 2750 compliance throughout the Agency.
- Reporting to Congress the report names and reasons for delay past 365 days for completing corrective actions as required under EPA Order 2750 and the IG Act.
- Ensuring the validity and reliability of data in MATS by documenting a quality assurance plan, issuing necessary guidance, and providing refresher training to Audit Followup Coordinators.

The Agency generally concurred with all of our recommendations.



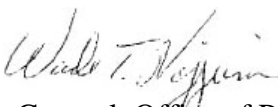
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

May 24, 2007

**MEMORANDUM**

**SUBJECT:** EPA Can Improve Its Oversight of Audit Followup  
Report No. 2007-P-00025

**FROM:** Wade T. Najjum   
Assistant Inspector General, Office of Program Evaluation

**TO:** Lyons Gray  
Chief Financial Officer

Benjamin Grumbles  
Assistant Administrator, Office of Water

Granta Nakayama  
Assistant Administrator, Office of Enforcement and Compliance Assurance

This is our report on the subject evaluation conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$104,602.

**Action Required**

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed upon actions, including milestone dates. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact me at 202-566-0827 or [najjum.wade@epa.gov](mailto:najjum.wade@epa.gov); or Dan Engelberg, Director for Program Evaluation, Water Issues, at 202-566-0830 or [engelberg.dan@epa.gov](mailto:engelberg.dan@epa.gov).

# Table of Contents

---

Purpose.....	1
Background .....	1
Noteworthy Achievements .....	3
Scope and Methodology .....	4
EPA Is Taking Action on OIG Recommendations.....	4
<i>Many Corrective Actions Were Delayed More Than 1 Year</i> .....	5
EPA Tracking of Audit Reports Is Incomplete.....	6
<i>Audit Followup Reporting Is Incomplete</i> .....	6
<i>Audit Records Are Inconsistent</i> .....	7
<i>Certification Memos Are Missing</i> .....	8
OIG Can Improve Followup on Audits and Evaluations.....	9
Conclusion .....	10
Recommendations .....	10
Agency Comments and OIG Evaluation .....	11
Status of Recommendations and Potential Monetary Benefits.....	12

## Appendices

A	Reports Included in Review.....	13
B	Response by the Office of the Chief Financial Officer.....	14
C	Response by the Office of Water .....	17
D	Response by the Office of Enforcement and Compliance Assurance .....	20
E	Distribution .....	23

## Purpose

The purpose of this project was to evaluate the status of corrective actions taken by the U.S. Environmental Protection Agency (EPA) in response to selected Office of Inspector General (OIG) water reports. Our objectives were to determine:

1. What is the status of corrective actions responding to OIG report recommendations, for selected reports?
2. How complete and up-to-date is the Management Audit Tracking System (MATS) report information for selected OIG reports?

Our review also revealed audit followup issues outside of MATS that are appropriate for Agency management to review at this time, concerning annual reporting and other required elements.

## Background

The Inspector General Act of 1978 established OIGs in Federal agencies to conduct independent audits and investigations of agency programs and operations, and make recommendations to improve their efficiency and effectiveness. Amendments to the Act added in 1988 directed agencies to report to Congress semiannually on the status of followup on OIG audit report recommendations.

Audit followup is essential to good management and to improving the efficiency and effectiveness of EPA programs and operations. Audit followup is also a shared responsibility of agency managers and audit organizations.<sup>1</sup> The EPA OIG's commitment to followup is reflected in the 2004-2008 Strategic Plan, with the aim of improving accountability for actions leading to environmental improvements.

EPA's policy and procedures on the audit followup process are contained in EPA Order 2750, most recently revised in 1998. EPA Order 2750 implements the policies and procedures of OMB Circular A-50, which specifies certain timeframes for audit resolution, and requires agencies to develop systems to ensure prompt implementation of recommendations. The Order also specifies a chain of responsibility for the audit management process, starting with the Chief Financial Officer (CFO) as the Agency's designated Audit Followup Official (AFO). According to EPA Order 2750, the AFO has "personal responsibility" for Agency-wide audit resolution and ensuring that corrective actions are implemented. Other duties in the audit management chain are also described in Table 1.

---

<sup>1</sup> According to the Office of Management and Budget's (OMB's) Circular A-50 on audit followup, available at <http://www.whitehouse.gov/omb/circulars/a050/a050.html>.

**Table 1. Selected position responsibilities in the audit management chain**

Title	Duties
Audit Followup Official (AFO)	<ul style="list-style-type: none"> <li>• Ensures Agency-wide audit resolution and that systems for audit followup are in place</li> <li>• Ensures corrective actions are actually implemented</li> <li>• Designates an Agency-wide Audit Followup Coordinator, who maintains and conducts quality assurance and analysis of the Agency audit tracking system and data, and prepares reports to Congress</li> </ul>
Action Officials (AO)	<ul style="list-style-type: none"> <li>• Responsible for implementing the audited program (commonly the Regional or Assistant Administrator to whom the report is addressed)</li> <li>• Ensures that corrective actions are documented, tracked, and implemented</li> <li>• Certifies (or designates a certifying official) that corrective actions are complete</li> </ul>
Audit Management Officials (AMO)	<ul style="list-style-type: none"> <li>• Is designated in each regional and national program office</li> <li>• Develops and maintains office-specific procedures for audit followup and resolution</li> <li>• Designates office-specific Audit Followup Coordinators</li> <li>• Ensures managers and staff within their office understand the audit management process, and take timely and appropriate corrective actions</li> </ul>
Audit Followup Coordinators (AFCs)	<ul style="list-style-type: none"> <li>• Serves as a contact point for OIG</li> <li>• Provides guidance and ensures that responses to OIG reports are complete and timely</li> <li>• Maintains official files containing the record of management decisions and certifications of completed corrective actions</li> <li>• Provides status reports to the Agency-wide AFC on corrective actions, audit resolution, and tracks reasons for delay</li> </ul>

Source: EPA Order 2750, Chapter 2.

OIG reports usually contain recommendations for Agency action officials to take corrective actions to address the findings and conclusions of the report. The Agency and the OIG agree on the corrective actions and document them in the Management Decision letter. EPA Order 2750 requires actions to be completed within 365 days of the management decision, or otherwise explain reasons for delay. OIG is responsible for maintaining a tracking system for audit reports and providing data to Agency AFCs. It is also responsible for compiling audit statistics and other information for the OIG's semiannual reports to Congress.

The Office of the Chief Financial Officer (OCFO), responsible as the Audit Followup Official, maintains and operates the Management Audit Tracking System (MATS) to track audit followup, report, and resolution dates; and corrective actions Agency-wide. MATS receives basic report data, such as the report title and issue date, from the Inspector General Operations and Reporting System (IGOR).<sup>2</sup> AFCs use MATS to track deadlines, such as the 180-day deadline for agreeing upon corrective actions in response to final report recommendations, and the 365-day deadline for implementing corrective actions. AFCs are responsible for quality assurance and analysis of tracking system data. When corrective actions for an audit report are complete and certified, the Agency may inactivate that report's MATS file, meaning it no longer must be actively tracked by the AFC. OCFO uses MATS data to compile annual performance and accountability reports to Congress. However, OCFO only requires limited information to be entered into MATS, including milestone dates, financial information if applicable, and explanations for missed deadlines. Further details on the status and actions taken to implement corrective actions must be documented by the Action Official's office. This information is essential for the Agency to assess and certify that agreed-on actions are completed.

AFCs are also required to maintain official files, which contain records of audit reports, management decisions, and certifications of completed corrective actions. According to EPA Order 2750, official files are required to include seven major elements:

- Names of Action Official and other parties responsible for implementing, tracking, following-up, and reporting on corrective actions;
- Draft reports;
- Response to draft reports;
- Final reports;
- Approved Management Decisions;
- OIG Management Decision acceptance memoranda; and
- All pertinent documentation and certification information.

Together, MATS and official files document an audit's history, as well as the actions taken by the Agency to address recommendations and correct deficiencies.

## **Noteworthy Achievements**

OCFO has committed to working cooperatively with the OIG to strengthen the audit followup process and improve oversight. Both the Office of Water (OW) and the Office of Enforcement and Compliance Assurance (OECA) initiated corrective actions and committed to others while our review was in process. These

---

<sup>2</sup> At this time, report recommendations are not stored in IGOR and therefore are not part of the data automatically transferred by the OIG to MATS for audit reports.



positive steps were taken to build on the shared audit followup responsibility of Agency managers and the OIG.

## **Scope and Methodology**

We conducted our review from July 2006 to December 2006. We selected final reports of the OIG Office of Program Evaluation Water Product Line, issued between Fiscal Years 2001 and 2005, for which OIG did not have information sufficient to conclude that corrective actions were complete for all recommendations (see Appendix A). We reviewed recommendations and corrective actions agreed to by the Agency for seven reports with OW as the Action Official, and two reports with OECA as the Action Official. The scope of this project is limited to these nine reports and two Offices. We developed questions regarding the status of corrective actions, and requested updates on these actions from the program offices. Our questions covered 50 agreed-upon recommendations: 31 addressed to OW, and 19 addressed to OECA. We used this information to assess the timeliness and completeness of Agency actions on our reports. We relied on the Agency's responses to our specific followup questions on each of the nine reports in our scope to determine the status of implementing of corrective actions reported by OW and OECA. We did not assess the Agency's corrective actions.

We reviewed June and July 2006 MATS files for report completeness and October 2006 MATS files for semiannual updates in the status of activities as reported by the program offices. We did not review the entire MATS system or MATS files for OIG reports other than the nine in our scope. We interviewed officials in OW, OECA, and OCFO on their followup processes and procedures, including maintaining official files and using certifications for inactivating reports in MATS. We reviewed audit followup guidance issued by EPA and OMB, including EPA Order 2750, and other provisions of the Inspector General Act and Reports Consolidation Act.

We performed this review according to Government Auditing Standards issued by the Comptroller General of the United States. We reviewed those internal controls relevant to our objectives.

## **EPA Is Taking Action on OIG Recommendations**

We found that, in general, the Agency is taking actions in response to the nine OIG reports that we followed up on. EPA provided evidence that many corrective actions were completed or ongoing, although we did not assess the effectiveness of these actions. For example, OW and OECA provided copies of guidance, Websites, meeting notes, and presentations to show that they had implemented corrective actions.

More specifically, we found:

- OW is taking actions for all seven of the reports with OW as the Action Official.<sup>3</sup> We followed up on 31 recommendations, some of which had multiple parts. We found that the agreed-upon actions for 9 recommendations could be considered complete, 21 could be considered ongoing, and 1 had not been acted upon. We did not assess how effective these corrective actions were at meeting the goals of the recommendations.
- For the two reports with OECA as the Action Official, we followed up on 19 agreed-upon recommendations. We found that OECA has completed its agreements for eight of these recommendations, nine were ongoing, and two were not acted upon. Again, we did not assess how effective these corrective actions were at meeting the goals of the recommendations.

### ***Many Corrective Actions Were Delayed More Than 1 Year***

All of the reports we reviewed contained corrective actions that extended beyond 365 days from the management decision. We found that it has taken program offices over 3 years from the management decision date to implement agreed-upon actions in response to some recommendations. For 10 recommendations, OECA has taken over 4 years to complete corrective actions agreed to by the OIG. For example:

- In response to our September 2003 drinking water capacity report,<sup>4</sup> OW agreed to develop a national capacity development strategy by December 2005. OIG later agreed to a revised due date of April 2006. OW said the report would be completed and sent to OIG in October 2006, but had not provided the report as of March 2007. The Agency did not provide any reasons for delay in the two reporting periods we reviewed in MATS.
- Based on OIG's August 2004 effluent guidelines report,<sup>5</sup> OW agreed to provide two studies on the effectiveness of several effluent guidelines by May 2005. OIG did not receive these studies until October 2006, and no reasons for delay were provided in the two reporting periods we reviewed in MATS.

---

<sup>3</sup> For our report on effluent guidelines (*Effectiveness of Effluent Guidelines Program for Reducing Pollutant Discharges Uncertain*, Report No. 2004-P-00025, August 24, 2004), OW and OIG reached a management decision in November 2006, and all corrective actions are now considered complete.

<sup>4</sup> *Impact of EPA and State Drinking Water Capacity Development Efforts Uncertain*, Report No. 20003-P-00018, September 30, 2003, <http://www.epa.gov/oig/reports/2003/2003-p-00018-20030930.pdf>.

<sup>5</sup> *Effectiveness of Effluent Guidelines Program for Reducing Pollutant Discharges Uncertain*, Report No. 2004-P-00025, August 24, 2004, <http://www.epa.gov/oig/reports/2004/20040824-2004-P-00025.pdf>.

- In the 2001 report on State water enforcement,<sup>6</sup> OIG recommended that OECA issue guidance specifying that Whole Effluent Toxicity (WET) violations may be considered significant noncompliance, and should be reported on the quarterly noncompliance report. OECA never issued additional guidance, and is relying on the Office of Wastewater Management in OW to develop WET implementation guidance for National Pollutant Discharge Elimination System permits. This guidance was still in draft in 2006, while this report's MATS file is no longer active.<sup>7</sup>

Completing corrective actions may take longer than the 365 days required by EPA Order 2750; the Agency may encounter unexpected delays in meeting milestone dates. However, corrective actions and agreed-upon dates should not be significantly revised or extended without concurrence from OIG. EPA Order 2750 requires OIG approval for "significant changes" to the corrective action plan, including "modifying a corrective action" or deferring "critical milestone dates that would delay completing the corrective action plan for 6 months or more." When delays occur, timely communication and documented reasons for delays are necessary for both OIG and EPA to meet reporting requirements to Congress.

## **EPA Tracking of Audit Reports Is Incomplete**

Both program offices and OCFO, in its oversight role, can do more to monitor the audit followup process, and ensure that timely and appropriate corrective actions are taking place. For example, we found that OCFO's annual audit followup reporting to Congress did not present required information on specific audit recommendations or reasons for delays in taking corrective actions. For the selected reports we reviewed, OW's official files were generally complete. However, OECA's official files were not consistently maintained and some MATS files in both OW and OECA were incomplete and contained mistakes. Both OW and OECA did not follow the process specified in EPA Order 2750 for closing out reports and certifying completing and implementing corrective actions.

### ***Audit Followup Reporting Is Incomplete***

EPA began reporting audit followup information with other performance information on an annual basis, based on passage of the Reports Consolidation

---

<sup>6</sup> *Water Enforcement: State Enforcement of Clean Water Act Dischargers Can Be More Effective*, Report No. 2001-P-00013, August 14, 2001, <http://www.epa.gov/oig/reports/2001/finalenfor.pdf>.

<sup>7</sup> OECA believed previously issued guidance was sufficient for this recommendation; however, in the corrective action plan, OECA agreed to issue new guidance in 2003, and did not obtain approval from the OIG to deviate from this plan as required by EPA Order 2750.

Act of 2000.<sup>8</sup> While the consolidation process reduced the reporting frequency, it did not change the information the Agency was required to report. OCFO's practice of omitting information on EPA's responsiveness to audit reports impairs its oversight of corrective actions, and limits public and congressional visibility over EPA's correcting deficiencies. It also increases the Agency's vulnerability to identified weaknesses when it does not implement corrective actions.

OCFO's annual Performance and Accountability reports to Congress were incomplete. The reports did not present a complete accounting of EPA's audit followup activities or the status of corrective actions. Beginning in 2003, the Agency's annual reports have not included specific information on outstanding audit reports. These omissions include audit titles, dates issued, and explanations for delays in taking agreed-upon corrective actions. The Agency's reports only present information on the number of open recommendations, completed actions, and the dollar value of funds put to better use.

Since 2003, OCFO's annual Performance and Accountability reports to Congress have been inaccurate due to their reliance on erroneous data in MATS. The OIG report on State water enforcement issues, issued in August 2001, was inactivated in MATS in August 2003.<sup>9</sup> By OCFO's method of accounting for audit reports with final corrective action taken, this report was listed as an Agency accomplishment in EPA's Fiscal Year 2003 annual report, and was no longer tracked or reported as ongoing. However, in response to our project questions, OECA stated that corrective actions were still ongoing and incomplete for at least eight recommendations as of October 2006. OCFO should have continued to report this evaluation as "Final Corrective Action Not Taken Beyond One Year," and provided reasons for delay in its annual reports to date.

### ***Audit Records Are Inconsistent***

Both OW and OECA were inconsistently using MATS. While OW's official files were generally complete, OECA did not have official files prior to January 2006. Errors and poor internal controls over the audit records system resulted in inaccurate reporting for one report, and made it difficult to ascertain the status of corrective actions. OW and OECA have committed to improving the completeness and accuracy of their audit records.

OW's official files were generally complete for the seven reports we reviewed. While some of the required elements for the seven areas were not in the labeled tabs of the official files, most of the information was available elsewhere in the official files or in MATS. OECA has not maintained official files for OIG reports prior to January 2006. Therefore, OECA did not have any official files for the

---

<sup>8</sup> EPA's OCFO continues to work with OIG semiannually to prepare the OIG's semiannual reports to Congress, which Congress still requires.

<sup>9</sup> *Water Enforcement: State Enforcement of Clean Water Act Dischargers Can Be More Effective*, Report No. 2001-P-00013, August 14, 2001, <http://www.epa.gov/oig/reports/2001/finalenfor.pdf>.

two reports included in our review. OECA said that program offices have documentation on the activities performed in response to a promised corrective action, but these are not kept in a central file and are not readily available.

MATS, the Agency's electronic audit tracking system, was incomplete and contained errors (see Appendix A for the list of reports).<sup>10</sup> For seven reports issued to OW, MATS files showed inconsistent usage of the system as well as data quality issues. Two MATS files did not show recommendations. Another file showed recommendations for a different report, a mistake which may have occurred because both reports had similar names. Four reports for which corrective actions had not been taken within 1 year did not have any explanations for the delay, despite OCFO's requirement to maintain this management information in MATS. Instead, the Past Due Notes section often contained milestone dates or a schedule of activities. Based on our review, OW reported that it has corrected errors and updated its MATS files.

For two reports issued to OECA,<sup>11</sup> one report's MATS file was incorrectly shown as being in "inactive" status as of 2003. The program office had inactivated this file in 2003 but told us during this project work that corrective actions were not complete as of 2006. Based on this information, OECA should not have inactivated the report in MATS, which resulted in OCFO reporting inaccurate information to Congress. OECA acknowledged that this report was coded inactive prior to all corrective actions being completed, but believed this coding was an error not indicative of its regular followup activities. OECA reported that it will review all OIG reports in the MATS system inactivated in the past 5 years. OECA also planned to return the improperly inactivated report to active status.

Because the program offices maintain the documentation of corrective action implementation, AFCs do not have all documentation that the corrective actions are actually taken. Official files containing the listed information are important to properly manage audit report followup and to ensure continuity of followup if staff turnover occurs. The lack of official files or full MATS utilization may make reporting requirements even more time-consuming and burdensome because documentation is so decentralized. Poor tracking of audit followup may adversely affect the completeness and accuracy of the Agency's annual reporting process and reports to Congress.

### ***Certification Memos Are Missing***

OW and OECA did not comply with the Agency's requirement for certifying closures of OIG reports, although EPA Order 2750 establishes a process for certifying that corrective actions are complete and have been implemented. An Action Official (AO) is responsible for maintaining documentation of corrective actions. For each action, the designated AO is also required to certify "in writing

---

<sup>10</sup> One report was not in MATS due to an error in the IGOR system.

<sup>11</sup> One report was not in MATS.

that the corrective actions are complete.” The AFC is then required to keep this certification in the official file. A report should not be placed in inactive status in MATS until this step has occurred. OCFO believes it is the AFC’s responsibility to have the certification memo in-hand before inputting the final action date. Entry of a final action date by an AFC automatically triggers MATS to inactivate the report without further verification by OCFO. As a result, reports may be inactivated from the audit tracking system before the corrective actions are complete. For at least one report, this premature inactivation led to the Agency sending incorrect information to Congress on audit followup status.

We requested a certification for two reports in “inactive” status in MATS, one from OW and one from OECA. However, neither OECA nor OW had certifications on file.<sup>12</sup> OECA did not have certifications for any inactivated reports, and believed that certification could “take different forms.” OW confirmed that it did not follow the required formal certification procedures for this or other reports, although it plans to develop guidance to implement the process.

OCFO does not provide additional guidance on the certification format, such as listing the actions being certified. OCFO also does not have effective internal controls in place to ensure that MATS files are not inactivated until a certification memo has been signed by the Action Official or designee.

All three Offices are taking steps to remedy this problem. OECA is considering developing Standard Operating Procedures for use in its Administration and Resource Management Support Staff office that have the potential to address the certification issue. OECA reported that its review of inactivated OIG reports in the MATS system will also include obtaining documentation on all corrective actions, and securing the required certifications of completion. OW is planning on issuing a memo to Office Directors describing the audit process and will be requesting a formal memo certifying completion of corrective actions. OCFO plans to develop a model certification letter for program offices to use and obtain AMO signatures, along with instructions for entering certification information in MATS.

## **OIG Can Improve Followup on Audits and Evaluations**

As part of our evaluation, we reviewed internal followup processes and procedures within the OIG. We found several opportunities for OIG to improve oversight of the audit process. We briefed OIG management on the opportunities. Generally, the OIG can improve the followup process by:

---

<sup>12</sup> In OECA, *Water Enforcement: State Enforcement of Clean Water Act Dischargers Can Be More Effective*, Report No. 2001-P-00013, August 14, 2001, <http://www.epa.gov/oig/reports/2001/finalenfor.pdf> and in OW, *States Making Progress on Source Water Assessments, But Effectiveness Still to Be Determined*, Report No. 2004-P-00019, May 27, 2004, <http://www.epa.gov/oig/reports/2004/20040527-2004-P-00019.pdf>.

- Performing regular periodic reviews of MATS
- Improving tracking of milestone dates for agreed-upon corrective actions
- Standardizing internal implementation procedures for internal followup policy
- Establishing a systematic process and procedures to review the Agency's corrective actions, and
- Improving the clarity of report recommendations

The Acting IG is committed to working cooperatively with OCFO to improve the follow-up process and the clarity of OIG reports.

## Conclusion

We concluded that EPA can better manage the audit followup process in several areas, including the record-keeping system and certifications of completed actions. OCFO has not ensured that its annual reporting to Congress and the public is fully accurate or complete. For the reports we reviewed, EPA Offices' noncompliance with Order 2750 has prevented the Agency from accurately monitoring and reporting the extent to which it has implemented audit recommendations. OW and OECA did not appear to be efficiently utilizing MATS or maintaining all of the key elements of the Agency's guidance on audit followup. As a result, the value of audit reports and recommendations to EPA may be diminished. OW and OECA have informed us that they have both begun taking corrective actions and committed to further future improvements. We encourage OECA to continue its efforts to improve its audit followup process. Based partly on this review, OCFO and OIG have committed to working collaboratively to improve oversight and strengthen the audit followup process.

## Recommendations

We recommend that the Assistant Administrators for OW and OECA:

1. Require AMOs and AFCs to implement EPA Order 2750, and biannually review audit management information including official files, to ensure completeness and accuracy.
2. Obtain OIG approval for any significant changes to corrective action plans, involving the deferral of milestone dates for 6 months or more.
3. Require AMOs and AFCs to certify in MATS the date of the certification letter and signing official's name and title, before the Final Action Date is entered, and the report moved to Inactive status.
4. Require AFCs to maintain a list of corrective actions taken by the program office either in MATS or in the official files.

We recommend that the Chief Financial Officer:

5. Monitor EPA Order 2750 compliance throughout the Agency.
6. Report to Congress as required under EPA Order 2750 and the Inspector General Act, as amended, including the report names and reasons for delay past 365 days for completion of corrective actions.
7. Issue guidance to AMOs and AFCs defining information that should be in the Past Due Notes section of MATS.
8. Document OCFO's quality assurance plan for MATS, including periodic spot checks, to ensure the quality of data in the system.
9. In addition to the training OCFO currently provides on an as-needed basis, prior to the semiannual reporting, provide refresher training to AFCs on populating the required data fields and the final action requirements of MATS and EPA Order 2750, including certifications, necessary for report inactivation.

## **Agency Comments and OIG Evaluation**

All three program offices generally concurred with the recommendations presented in our draft report. EPA's detailed responses are in Appendices B, C, and D. OW concurred with our findings, and reported that their AFC would biannually review all audit information including official files. OW will also obtain certification letters for three reports with corrective actions known to be complete. OECA provided a corrective action plan to address the report recommendations. OECA has assigned its Administration and Resources Management Support Staff to work with senior managers across OECA to develop a set of Standard Operating Procedures, which will address compliance with Order 2750.

OCFO reiterated its commitment to overseeing audit followup, and agreed with our recommendations with a few considerations. OCFO proposed to issue a memorandum to EPA national program managers and other senior leaders reiterating the need for accurate and timely record-keeping. OCFO also proposed to reinstate detailed information on audit followup in its reports to Congress, along with a link on its website for additional information. We slightly modified Recommendations 6 and 9 in response to OCFO's comments. We left Recommendation 5 unchanged because we do not have sufficient evidence to support modifying it at this time. We anticipate receiving more details on OCFO's proposed memorandum, compliance monitoring, and quality assurance plan for MATS in the Agency's 90-day response.



## **Status of Recommendations and Potential Monetary Benefits**

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	10	Require AMOs and AFCs to implement EPA Order 2750, and biannually review audit management information including official files, to ensure completeness and accuracy.	O	Assistant Administrators for OW and OECA			
2	10	Obtain OIG approval for any significant changes to corrective action plans, involving the deferral of milestone dates for 6 months or more.	O	Assistant Administrators for OW and OECA			
3	10	Require AMOs and AFCs to certify in MATS the date of the certification letter and signing official's name and title, before the Final Action Date is entered, and the report moved to Inactive status.	O	Assistant Administrators for OW and OECA			
4	10	Require AFCs to maintain a list of corrective actions taken by the program office either in MATS or in the official files.	O	Assistant Administrators for OW and OECA			
5	11	Monitor EPA Order 2750 compliance throughout the Agency.	O	Chief Financial Officer			
6	11	Report to Congress as required under EPA Order 2750 and the Inspector General Act, as amended, including the report names and reasons for delay past 365 days for completion of corrective actions.	O	Chief Financial Officer			
7	11	Issue guidance to AMOs and AFCs defining information that should be in the Past Due Notes section of MATS.	O	Chief Financial Officer			
8	11	Document OCFO's quality assurance plan for MATS, including periodic spot checks, to ensure the quality of data in the system.	O	Chief Financial Officer			
9	11	In addition to the training OCFO currently provides on an as-needed basis, prior to the semiannual reporting, provide refresher training to AFCs on populating the required data fields and the final action requirements of MATS and EPA Order 2750, including certifications, necessary for report inactivation.	O	Chief Financial Officer			

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress

## ***Reports Included in Review***

We followed up on two OIG reports for which the Action Official is the Assistant Administrator for OECA:

1. *Water Enforcement: State Enforcement of Clean Water Act Dischargers Can Be More Effective*, Report No. 2001-P-00013, August 14, 2001.
2. *EPA Should Take Further Steps to Address Funding Shortfalls and Time Slippages in Permit Compliance System Modernization Effort*, Report No. 2003-M-00014, May 20, 2003.

We followed up on seven OIG reports for which the Action Official is the Assistant Administrator for OW:

1. *Wastewater Management: Controlling and Abating Combined Sewer Overflows*, Report No. 2002-P-00012, August 26, 2002.
2. *Impact of EPA and State Drinking Water Capacity Development Efforts Uncertain*, Report No. 2003-P-00018, September 30, 2003.
3. *Effectiveness of Effluent Guidelines Program for Reducing Pollutant Discharges Uncertain*, Report No. 2004-P-00025, August 24, 2004.
4. *EPA Needs to Reinforce Its National Pretreatment Program*, Report No. 2004-P-00030, September 28, 2004.
5. *Source Water Assessment and Protection Programs Show Initial Promise, But Obstacles Remain*, Report No. 2005-P-00013, March 28, 2005.
6. *Efforts to Manage Backlog of Water Discharge Permits Need to Be Accompanied by Greater Program Integration*, Report No. 2005-P-00018, June 13, 2005.
7. *Progress Report on Drinking Water Protection Efforts*, Report No. 2005-P-00021, August 22, 2005

## ***Response by the Office of the Chief Financial Officer***

### **MEMORANDUM**

**SUBJECT:** Office of the Chief Financial Officer Response to the Office of Inspector General Draft Audit Evaluation Report, "EPA Can Improve Its Oversight of Audit Follow-up," April 5, 2007, No. 2006-1508

**FROM:** Lyons Gray  
Chief Financial Officer

**TO:** Dan Engelberg  
Director for Program Evaluation, Water Issues  
Office of Inspector General

We appreciate the opportunity to provide written comments on the above-referenced draft audit evaluation report. Audit follow-up is essential to good management, and the Office of the Chief Financial Officer (OCFO) takes its responsibilities for overseeing EPA's audit follow-up process very seriously. We are fully committed to maintaining and strengthening the Agency's audit management process and to ensuring that timely and appropriate corrective actions are taking place, are duly and accurately entered into the Agency's audit tracking system, and are fully and appropriately reported to the Congress. We look forward to continuing our work with the OIG to strengthen audit follow-up within EPA, thereby helping improve the effectiveness and efficiency of the Agency's programs and achieve better environmental results.

I am attaching our response to the recommendations presented in OIG's draft evaluation report. Should you or your staff have questions about these comments or require any additional information, please contact Debbie Rutherford of OCFO's Office of Planning, Analysis, and Accountability at 202-564-1913.

Attachment

**cc:** Benjamin Grumbles, Assistant Administrator, OW  
Granta Nakayama, Assistant Administrator, OECA  
Maryann Froehlich, Deputy Chief Financial Officer  
Joshua Baylson, Associate Chief Financial Officer  
Kathy Sedlak O'Brien, Director, Office of Planning, Analysis, and Accountability

**OCFO's Response to the Recommendations for OCFO Action  
Contained in OIG's Draft Audit Evaluation Report:  
"EPA Can Improve Its Oversight of Audit Follow-up"  
April 5, 2007, Assignment No. 2006-1508**

The Office of the Chief Financial Officer (OCFO) acknowledges the consideration that the Office of the Inspector General (OIG) has given to our observations on the preliminary discussion draft of this report. We appreciate the ways in which OIG has addressed our comments and concerns in this latest draft. We believe that this draft report reflects more accurately OCFO's ongoing oversight efforts under EPA Order 2750 and our reliance on the Agency's audit follow-up coordinators. We largely support all of OIG's recommendations, although in some cases we would like to raise some further considerations or clarifications. We have provided our response to each specific recommendation below. OCFO looks forward to working closely with OIG to implement these recommendations and strengthen EPA's audit management process.

**OIG Recommendation # 5: Monitor EPA Order 2750 compliance throughout the Agency.**

Agree, with considerations. To better characterize our continuing efforts in support of Agency compliance with EPA Order 2750, we suggest that Recommendation # 5 read: "*Continue to* monitor EPA Order 2750 compliance. . . ."

OCFO has been committed to ensuring Agency compliance with EPA Order 2750 and a sound audit follow-up process since the Inspector General Act Amendments of 1988 authorized federal departments and agencies to provide information to the Congress on their decisions and plans to follow up OIG audit report recommendations. The Agency's Audit Follow-up Coordinator (AFC) within OCFO works with Agency staff on a daily basis, providing technical assistance and training and verifying data entered into the Management Audit Tracking System (MATS).

To reinforce audit follow-up within the Agency, the Chief Financial Officer, as EPA's Audit Follow-up Official, will issue a memorandum to all EPA national program managers, regional administrators, and other senior leaders reiterating the need for accurate and timely record-keeping and reporting and the importance of complete cooperation and full support of Agency personnel in implementing the requirements of Order 2750. We are committed to working with OIG to improve oversight and strengthen the audit follow-up process.

**OIG Recommendation #6: Report to Congress as required under EPA Order 2750 and the IG Act, including the report[ing of] names and reasons for delay past 365 days for completion of corrective actions.**

Agree, with considerations. OCFO concurs with the need to fully report to the Congress on the completion of corrective actions, and we will reinstitute our previous practice (FY 2001 and FY 2002) of listing audit titles, audit numbers, and the responsible office, beginning with our FY 2007 *Performance and Accountability Report* (PAR). We propose to include a link to

OCFO's website, where the public will be able to find reasons for delays in completing corrective actions, along with the Agency AFC's name, telephone number, and e-mail address for further information. In addition, we would suggest that this recommendation and the draft report make clear that, in some cases, agreed-upon corrective actions may require more than 365 days (sometimes several years). Therefore, final actions delayed beyond 365 days do not necessarily indicate that corrective action is not on track. We also suggest that the citation of the Inspector General Act in this recommendation be revised to "the Inspector General Act *Amendments of 1988*," which directed agency and department heads to report to Congress semi-annually on the status of follow-up on OIG audit report recommendations.

**OIG Recommendation # 7: Issue guidance to AMOs and AFCs defining information that should be in the Past Due Notes section of MATS (Management Audit Tracking System).**

Agree. OCFO recognizes the need for guidance to specify the information that AFCs should enter into MATS mandatory information fields, particularly in the "Past Due Comments" section. Reassignment, retirement, and separation from the Agency, among other actions, have contributed to the need to reinforce for new AFCs expectations about the manner and content of data entry. The CFO memorandum discussed under Recommendation #5 above will provide this guidance, and instructions will also be included in the training OCFO provides periodically to AFCs and in the "refresher" training discussed under Recommendation #9.

**OIG Recommendation # 8: Document OCFO's quality assurance plan for MATS, including periodic spot checks, to ensure the quality of data in the system.**

Agree. OCFO recognizes the need for a written plan to routinely assure the quality and completeness of data in MATS. Such a plan would include guidelines for reviewing MATS entries—particularly mandatory data fields, such as listings of corrective actions—for completeness and ensuring that certification documents are provided for all final actions reported. OCFO will work with OIG to develop a workable and effective quality action plan, and we will issue the plan to Agency AFCs and monitor compliance.

**OIG Recommendation # 9: In addition to the training OCFO currently provides on an as-needed basis, prior to the semiannual reporting, provide refresher training to AFCs on populating the required data fields and the report inactivation requirements of MATS and EPA Order 2750.**

Agree, with considerations. While OCFO has been training individual AFCs on an as-needed basis, we concur that providing refresher training for all AFCs would help strengthen the Agency's audit follow-up process. We propose to work with OIG to develop and conduct training prior to the FY 2007 end-of-the-year reporting period and provide additional training sessions on an as-needed basis. With respect to the phrase, "*...and the report inactivation requirements of MATS...*," in the above recommendation, we believe this may be confusing as inactivation is more of an OCFO than an AFC responsibility. We recommend replacing this phrase with: "*...and completing final action requirements, including certification.*"

## ***Response by the Office of Water***

### **MEMORANDUM**

**SUBJECT:** Office of Water Response to Draft Evaluation Report: EPA Can Improve Its Oversight of Audit Followup, Assignment No. 2006-1508

**FROM:** Benjamin Grumbles,  
Assistant Administrator, Office of Water

**TO:** Dan Engelberg,  
Director for Program Evaluation, Water Issues  
Office of Program Evaluation  
Office of Inspector General

Thank you for the opportunity to comment on your Office's draft report, "EPA Can Improve Its Oversight of Audit Followup" (No. 2006-1508). The Office of Water (OW) appreciates the attention that the Office of Inspector General (OIG) has brought to the issue of Agency oversight of audit followup actions. OW takes its audit follow-up responsibilities very seriously and plans to make the necessary effort to oversee and close out all corrective actions related to all past audits. We also appreciate the extent the OIG acknowledged the comments OW provided to the January 12<sup>th</sup> discussion draft evaluation report.

We concur with the findings described in the draft report related to EPA's responsibilities for maintaining effective oversight of audit followup action. We concur with the four recommendations addressed to the Office of Water and the Office of Enforcement and Compliance Assurance on page 10 of the draft report. Additional comments on when and how we plan to address each of the recommendations is provided in the attachment.

Thank you again for the opportunity to comment on the draft report. If you have questions regard my comments, please contact Michael Mason, Resource Management Staff, at 564-0572.

Attachment

cc: Mike Shapiro, OW  
Tim Fontaine, OW  
Michael Mason, OW  
Bill Roderick, OIG  
Wade Najjum, OIG  
Elizabeth Grossman, OIG  
Eileen McMahon, OIG

Kathy O'Brien, OCFO  
Rita Smith, OCFO  
Debbie Rutherford, OCFO  
Sharon Tant, OCFO  
Barbara Freggens, OCFO  
Gwen Spriggs, OECA

## Attachment 1

**Recommendation 1: Require AMOs and AFCs to implement EPA Order 2750, and biannually review audit management information including official files, to ensure completeness and accuracy.**

OW concurs with this recommendation. The OW Audit Followup Coordinator (AFC) will continue to review all audit management information including official files on a biannual basis. These reviews will be conducted every March and September to coincide with the Agency's requirement under EPA Order 2750 and the IG Act to report to Congress on the status of completing corrective actions. Every effort will be made to maintain the completeness and accuracy of the information.

**Recommendation 2: Obtain OIG approval for any significant changes to corrective action plans, involving the deferral of milestones dates for 6 months or more.**

OW concurs with this recommendation. The OW AFC will notify the OIG and seek its approval for any significant changes to corrective action plans.

**Recommendation 3: Require AMOs and AFCs to certify in MATS the date of the certification letter and signing official's name and title, before the Final Action Date is entered, and the report moved to Inactive status.**

OW concurs with this recommendation. The OW AFC has notified the Action Officials, or their designates, for three of the OIG water program studies discussed in the draft report that they are required to provide a certification letter to the AFC when all corrective actions are completed. All corrective actions for these studies are considered to be completed and a certification letter will be included in the file. Once the certifications letters are received, the AFC will enter the necessary information into MATS so OCFO can provide the Final Action Date and move the report to Inactive status.

**Recommendation 4: Require AFCs to maintain a list of corrective action taken by the program office either in MATS or in the official files.**

OW concurs with this recommendation. The AFC will continue to maintain a brief description of the corrective actions taken by the Action Official in MATS and the official file.



## ***Response by the Office of Enforcement and Compliance Assurance***

### **MEMORANDUM**

**SUBJECT:** OECA Comments on Draft Report, “EPA Can Improve Its Oversight of Audit Followup,” Assignment Number 2006-1508, dated April 5, 2007

**FROM:** Catherine R. McCabe  
Principal Deputy Assistant Administrator

**TO:** Dan Engelberg  
Office of Inspector General  
Director for Program Evaluation, Water Issues

Thank you for the opportunity to review and comment on the Draft Report, “EPA Can Improve Its Oversight of Audit Followup,” Assignment Number 2006-1508, dated April 5, 2007. The Office of Enforcement and Compliance Assurance (OECA) has completed its review of the report and affirms its commitment to fully implement the requirements of the Agency’s guidance, EPA Order 2750, “EPA’s Audit Management Process.” OECA’s Administration and Resources Management Support Staff (ARMSS), which has the primary responsibility of interfacing with our internal program offices, Office fo the Chief Financial Officer and the OIG staff, has been assigned the lead responsibility to work with senior managers across OECA to develop a set of standard operating procedures which will enhance our compliance with EPA Order 2750, including a biannual review audit, enhances reporting and recordkeeping, development and tracking of corrective action plans, and closure certification and documentation procedures. The corrective action plan and schedule are attached.

Finally, as noted in the report, OECA has corrected the administrative error in the Management Audit Tracking System (MATS) file and returned the State Water Enforcement Report to active status.

**CORRECTIVE ACTION PLAN**  
**“EPA CAN IMPROVE ITS OVERSIGHT OF AUDIT FOLLOWUP”**

Number	Recommendation	Planned Corrective Action	Planned Completion
1	Require AMO’s and AFCs to implement EPA Order 2750, and biannually review audit management information including official files, to ensure completeness and accuracy.	<p>Conduct an assessment of the current system to ensure accuracy and documentation.</p> <p>Develop an OECA SOP which fully addresses the AFCs responsibility to perform biannual reviews and ensure a file is complete and accurate.</p>	<p>Within 90 days</p> <p>Within 6 months of the issuance of the OIG’s Final Report</p>
2	Obtain OIG approval for any significant changes to corrective action plans, involving the deferral of milestone dates for six months or more.	Following the assessment described above.	Within 90 days
3	Require AMOs and AFCs to certify in MATS the date of the certification letter and signing official’s name and title, before the Final Action Date is entered, and the report moved to Inactive status.	Documentation will be verified for inactive status cases from the last five years and the procedures will be included in the SOP referenced above.	<p>Documentation to be verified for current inactive reports within 90 days</p> <p>SOP to be completed within 6 months</p>
4	Require AFCs to maintain a list of corrective actions taken by the program office either in MATS or in the official file.	Corrective action plans will be developed where needed and the proposed OECA SOP will fully address the AFC’s responsibility to maintain certain data in MATS	Within 90 days for current active cases.

OECA appreciates the opportunity to review and provide comments on this draft report. We look forward to working with your office to finalize this review. If you have any future questions or concerns, you may contact OECA's Audit Follow-Up Coordinator, Gwendolyn Spriggs, on 202-564-2439.

cc: Lyn Buhl, OECA/DAA  
Margaret Schneider, OECA/IO  
David Swack, OECA/ARMSS  
Lisa Lund, OECA/OC  
Richard Albores, OECA  
Will Anderson, OCFO  
Sharon Tant, OCFO

## ***Distribution***

Office of the Administrator  
Chief Financial Officer  
Agency Followup Coordinator  
Assistant Administrator for Water  
Assistant Administrator for Enforcement and Compliance Assurance  
General Counsel  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Audit Followup Coordinator, Office of the Chief Financial Officer  
Audit Followup Coordinator, Office of Enforcement and Compliance Assurance  
Audit Followup Coordinator, Office of Water  
Acting Inspector General