



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## Audit Report

# EPA Effectively Reviewed Recovery Act Recipient Data but Opportunities for Improvement Exist

Report No. 10-R-0234

September 27, 2010



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**Abbreviations**

EPA	U.S. Environmental Protection Agency
GAO	U.S. Government Accountability Office
OARM	Office of Administration and Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

We conducted this review as part of a national review coordinated by the U.S. Department of Agriculture Office of Inspector General. The effort was designed to respond to concerns raised by Members of Congress and the U.S. Government Accountability Office regarding reporting errors in the October 2009 recipient reports.

## Background

The American Recovery and Reinvestment Act of 2009 states that the use of Recovery Act funds should be transparent and reported clearly, accurately, and in a timely manner. The Office of Management and Budget (OMB) issued government-wide guidance for carrying out the reporting requirements included in Section 1512 of the Recovery Act.

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

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2010/20100927-10-R-0234.pdf](http://www.epa.gov/oig/reports/2010/20100927-10-R-0234.pdf)

## ***EPA Effectively Reviewed Recovery Act Recipient Data but Opportunities for Improvement Exist***

### What We Found

The U.S. Environmental Protection Agency's (EPA's) controls for reviewing recipient-reported data pursuant to the Recovery Act resulted in low error rates. For the fields that OMB identified as those for which there are major concerns for significant reporting errors, we identified errors in 3 percent of recipient entries. While EPA did not identify any of these errors as significant, we believe two of the errors are significant. We also identified errors in other fields that OMB did not identify as major concerns for significant reporting errors. Significant errors could mislead the public about how much money the recipients are receiving.

OMB guidance requires federal agencies to provide Recovery Act recipients with a list of key award information. EPA prepared a reference guide that instructed recipients where to find this information. However, the reference guide was not specific for some key data fields, leaving recipients to interpret how to report information. As a result, some recipients reported inaccurate data.

OMB guidance identified the award amount data element as a major concern for significant reporting errors. Instead of adopting an Agency-wide action limit for identifying errors, EPA allowed program offices to adopt their own action limits. As a result, there were some discrepancies between recipient-reported data and EPA award amounts that were not corrected.

### What We Recommend

We recommend that the Assistant Administrator for Administration and Resources Management develop an Agency-wide threshold for identifying significant errors for those fields OMB identified as major concerns, clarify the reference guide to reduce the incidence of varying interpretations, and adopt a policy to investigate all award amount differences. EPA agreed with the findings and provided corrective action plans or acceptable alternatives for addressing the recommendations in the report.



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

THE INSPECTOR GENERAL

September 27, 2010

**MEMORANDUM**

**SUBJECT:** EPA Effectively Reviewed Recovery Act Recipient Data but Opportunities for Improvement Exist  
Report No. 10-R-0234

**FROM:** Arthur A. Elkins, Jr.  
Inspector General

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", is placed over the typed name.

**TO:** Craig E. Hooks, Assistant Administrator  
Office of Administration and Resources Management

This is our report on the subject audit 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. EPA managers, in accordance with established resolution procedures, will make final determinations on matters in this report.

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 \$278,859.

**Action Required**

In responding to the draft report, the Agency provided corrective action plans for addressing all of the recommendations. Therefore, a response to the final report is not required. The Agency should track corrective actions not implemented in the Management Audit Tracking System. We have no objections to the further release of this report to the public. The report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions regarding this report, please contact Melissa Heist at (202) 566-0899 or [heist.melissa@epa.gov](mailto:heist.melissa@epa.gov); or Janet Kasper, Product Line Director, at (312) 886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

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# Chapter 1

## Introduction

### Purpose

Our audit was part of a multiagency effort coordinated by the U.S. Department of Agriculture Office of Inspector General (OIG) at the request of the Recovery Accountability and Transparency Board. The effort was designed to respond to concerns raised by Members of Congress and the U.S. Government Accountability Office (GAO) regarding reporting errors in the October 2009 recipient reports. Our objective was to determine whether EPA has implemented an internal control structure that effectively ensures that recipient data are reported completely, accurately, and in a timely manner; and that any material omissions and/or significant errors are identified and corrected.

### Background

EPA awards multimillion-dollar assistance agreements and contracts under the American Recovery and Reinvestment Act of 2009. The Recovery Act states that the use of Recovery Act funds should be transparent and reported clearly, accurately, and in a timely manner. The Recovery Act requires federal agencies to review recipient reporting. The Office of Management and Budget (OMB) issued OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act (Recovery Act) of 2009*, on June 22, 2009. OMB M-09-21 provides government-wide guidance for carrying out the reporting requirements included in Section 1512 of the Recovery Act. Section 1512 requires recipients to report on the use of Recovery Act funding by the tenth day of each calendar quarter. Federal agencies then have an opportunity to review and comment on the recipient-reported data before they are made public.

Recipient-reported data are made available to the public at [www.Recovery.gov](http://www.Recovery.gov). The reports are designed to provide the public with an unprecedented level of transparency with respect to how Recovery Act money is being spent and will help drive accountability for the timely, prudent, and effective spending of Recovery Act dollars.

GAO issued a report titled *Recovery Act: Recipient Reported Jobs Data Provide Some Insight into Use of Recovery Act Funding, but Data Quality and Reporting Issues Need Attention*, on November 19, 2009. In this report, GAO recommended that OMB and federal agencies reexamine review and quality assurance processes, procedures, and requirements in light of issues identified in the first round of recipient reporting. As a result, OMB issued OMB M-10-08, *Updated*

*Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, on December 18, 2009. This guidance incorporates GAO guidance and lessons learned from the first quarter of recipient reporting, specifically those related to the quality of data collected and the reporting of jobs created and retained.

## **Noteworthy Achievements**

EPA was proactive about ensuring data quality. During its review of recipient-reported data, EPA identified four recipients that did not report information related to their Recovery Act awards. EPA considered this nonreporting as material omissions. In three cases, technical issues prevented the recipients from reporting in a timely manner. In the fourth case, the recipient had also not reported in the first reporting period. EPA tried to work with that recipient, but the recipient did not respond to EPA's efforts and did not report during the quarter ending December 31, 2009. The regional grants office tried to work with the recipient to resolve issues relating to the assistance agreement, but eventually determined that it needed to initiate a process for terminating the agreement because the recipient did not comply with the terms and conditions of the award.

## **Scope and Methodology**

We performed our work in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States. These standards required 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 reviewed recipient-reported data for the quarter ending December 31, 2009. For our analysis, we compared two data sets. The first data set was an extract of recipient-reported data from [www.FederalReporting.gov](http://www.FederalReporting.gov). The second data set was a spreadsheet of Recovery Act awards EPA submitted to OMB as a result of a February 26, 2010, information request. We compared all of the recipient-reported data to all of the EPA data for the data fields listed in Table 1-1.

**Table 1-1: Contract and Assistance Agreement Data Fields**

<b>Contracts</b>	<b>Assistance Agreements</b>
Award Type	Award Type
Award Number	Award Number
Funding Agency Code	Funding Agency Code
Awarding Agency Code	Awarding Agency Code
Amount of Award	Award Date
	Amount of Award
	Catalogue of Federal Domestic Assistance Number
	Activity Code
	Program Source (Treasury Account Symbol) Code

Source: OMB guidance M-10-08.

After identifying discrepancies between EPA data and recipient-reported data, the audit team independently verified the data. The audit team then asked EPA staff to explain the discrepancies noted with respect to assistance agreements and contracts. Based on the explanations received, the audit team determined whether the discrepancy was due to an EPA error or a recipient error, or whether no error occurred (i.e., the discrepancy was due to a timing issue).

Further details on scope and methodology are in Appendix A.

## **Prior Audit Coverage**

We issued a related report, *EPA Recovery Act Recipient Reporting and Data Review Process*, Report No. 10-R-0020, in October 2009. The purpose of that review was to determine whether EPA established a process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors, and to notify the recipients of the need to make appropriate and timely changes. No recommendations were identified in that report.



## Chapter 2

### EPA's Internal Controls Resulted in Low Error Rate

EPA developed procedures to assist Agency staff in reviewing Recovery Act recipient quarterly reports, which resulted in an error rate of 3 percent in the fields OMB identified as major concerns for significant reporting errors. During our review, we identified 23 errors pertaining to award amount and award number. We considered two of these errors to be significant, although EPA did not. OMB guidance requires federal agencies to establish data review processes that focus on significant reporting errors and material omissions, and report significant errors to OMB each quarter. EPA did not regard as significant the errors we identified because it did not define what constitutes a significant error. Significant errors could mislead the public about how much money the recipients are receiving.

#### **OMB Guidance Focused on Significant Reporting Errors and Material Omissions**

OMB guidance states that federal agencies should establish data review processes that focus on significant reporting errors and material omissions, and report significant errors to OMB. OMB identified several data elements, including award amount and award number, as major concerns for significant reporting errors. Significant reporting errors are instances in which inaccurate reporting of required data could mislead or confuse the public. However, OMB did not define for agencies what the margin of error threshold should be. After federal agencies review Recovery Act recipient quarterly reports, agencies are to report on any significant errors to OMB.

#### **EPA's Controls for Reviewing Data Effective**

EPA's low error rate in recipient-reported data can be attributed to the process the Agency instituted pursuant to the Recovery Act. For the data fields OMB identified as major concerns for significant reporting errors, we found errors in 23, or 3 percent, of the 764 recipient reports for the period ending December 31, 2009 (Table 2-1). For the other fields that we tested, we found 48 errors in the recipient reports.

**Table 2-1: OMB-Identified Fields of Major Concern for Significant Reporting Errors**

Data field	Number of errors in recipient data	Recipient errors EPA identified as significant	Recipient errors OIG identified as significant
<b>Award Amount</b>			
Assistance Agreements	3	0	1
Contracts	9	0	1
<b>Award Number</b>			
Assistance Agreements	8	0	0
Contracts	3	0	0

Source: OIG analysis.

EPA's process for reviewing recipient data for the reporting period ending December 31, 2009, included two areas of emphasis. First, EPA conducted a macro review of all recipient reports. The macro review was designed to identify missing reports, missing data elements, clear anomalies, and reported information that exceeded preestablished thresholds for action. Next, program offices conducted a separate review to ensure completeness of recipient data and to identify anomalies and obvious errors. EPA received 764 recipient reports (for 585 assistance agreements and 179 contracts) and made 178 formal comments to recipients regarding their reports.

We considered 2 of the 12 errors we found in the award amount field for assistance agreements and contracts to be significant. The other 10 errors were below the OIG's judgmental threshold of 5 percent. When we called attention to the two award amount errors that were over 5 percent, EPA told us it did not consider these errors to be significant. In one case, the recipient underreported the award amount by 37.9 percent, or \$30,600. This recipient did not report an amendment, which accounted for the entire error. EPA did not identify the error during its review process. In the other case, the contractor only reported the amount that had been awarded on approved work plans, and not the amount that had been obligated. Thus, the contract was underreported by 7.9 percent, or \$171,787.

We found 11 award number errors for assistance agreements and contracts. EPA told us that it did not consider any of them to be significant because the Agency could still track those awards. Recipient errors included an extra hyphen or a one-character error in the award number. In two cases, the recipient did not report the correct award number because EPA had not updated the contract number correctly.

We identified 48 errors in other fields that we reviewed. However, none of these fields were considered of major concern for significant reporting errors by the terms of the OMB guidance (Table 2-2), and we did not find the differences sufficiently significant to mislead the public.

**Table 2-2: Fields Not Identified by OMB as of Major Concern for Significant Reporting Errors**

Data field	Number of errors in recipient data
<b>Assistance Agreements</b>	
Award Type	1
Award Date	32
Funding Agency Code	0
Awarding Agency Code	0
Catalogue of Federal Domestic Assistance	0
Program Source (Treasury Account Symbol Code)	13
<b>Contracts</b>	
Award Type	0
Funding Agency Code	1
Awarding Agency Code	1

Source: OIG analysis.

## EPA Did Not Define What Constitutes a Significant Error

EPA did not consider significant the two errors for the award amount field that we considered to be significant. OMB provided a broad definition of significant errors. Based on that broad definition, EPA developed various reports and procedures to assist Agency staff in reviewing recipient-reported data. Although the procedures were generally effective in identifying recipient errors, EPA did not provide its staff with specifics for what should be considered a significant error.

## Recipient-Reported Data Were Generally Accurate

Recipient-reported data were generally accurate, ensured transparency, and provided the public reliable information about Recovery Act projects. However, errors in the award amount field may mislead the public about how much money recipients are receiving.

## Recommendation

We recommend that the Assistant Administrator for Administration and Resources Management:

- 2-1 Develop an Agency-wide threshold to identify significant errors for those fields OMB identified as major concerns for significant reporting errors.

## Agency Comments and OIG Evaluation

In responding to the draft report, the Office of Administration and Resources Management (OARM) agreed to tighten the threshold for acceptable variances for key data elements identified in OMB M-09-21. EPA also noted that the

multiagency audit of data quality review processes conducted by the U.S. Department of Agriculture OIG, dated June 25, 2010, recommended that the Recovery Accountability and Transparency Board provide additional guidance to agencies to ensure consistency and uniformity in addressing significant errors. EPA stated that it supports that recommendation and is prepared to apply the board's guidance when issued to its future Section 1512 reviews.

We followed up with EPA to clarify the response and obtain a milestone date for implementation of the corrective action. The Director, Office of Grants and Debarment, stated that EPA will tighten the threshold for the following data elements by September 15, 2010: award date, award amount, jobs created and retained, and recipient name. The planned corrective action meets the intent of the report recommendations.

The Agency's full response is in Appendix B.

## Chapter 3

### EPA Guidance Requires Recipients to Interpret Reporting Instructions

EPA's guidance to recipients on what to report in certain fields in the Recovery Act reporting system was not always sufficient to ensure that recipients reported the correct information. OMB guidance requires federal agencies to provide Recovery Act recipients with a list of key award information, such as award date, activity code, and order number. EPA prepared a reference guide for recipients to instruct them where to find this key award information. However, certain fields of the reference guide were not specific and required recipients to interpret how to report information. Improved guidance will reduce recipient-reported errors and improve EPA's ability to verify the accuracy of recipient-reported data.

#### Recipients Responsible for Finding Key Award Information

OMB guidance requires federal agencies to provide Recovery Act recipients with a list of key award information. EPA prepared a reference guide for recipients that instructed recipients where to find key award information, such as award date, activity code, and order number.

#### Improved Guidance Needed to Ensure Accuracy of Recipient Reporting

EPA guidance to recipients for Recovery Act reporting should be more specific so as to improve reporting. Below are examples of key data fields for which we found that EPA can improve guidance to ensure that accurate and consistent information is reported by recipients.

- **Award Date:** For the award date data field, EPA guidance for assistance agreements instructs recipients to enter the date that EPA signed the award. However, we noted several agreements in which EPA awarded an amendment after the original award. EPA's guidance does not address whether recipients should enter the award date for an amendment or the original award. Because EPA's guidance did not specify which date to use, we were not able to determine whether the recipient-reported information was correct.
- **Activity Code:** For the activity code data field, EPA's reference guide for assistance agreements identifies the activity codes that the recipient should use for three programs. For the other eight programs, the reference guide requires the recipients to navigate to the Office of Grants and Debarment

Website. From there, recipients open another link that contains a table of 14 programs. The recipients then must identify their type of assistance agreement and select from the codes provided. We were unable to electronically verify the activity codes because EPA does not track the information in its databases, and the electronic file the Office of Grants and Debarment provided to the OIG was not accurate. We did, however, manually compare some recipient reports to the guidance information EPA provided recipients and found that in some cases, the activity code that was used was not one of the options EPA identified in its reference guide. The OMB-provided template that recipients use to file their reports includes a drop-down menu for the activity code field. However, the drop-down menu identifies over 2,000 activity codes, complicating the activity code determination process.

## **Guidance Should Be More Specific**

The award date and activity code fields found in the reference guide were not specific and required recipients to interpret how to report information. In explaining how to fill out some of the fields, the guide directed recipients to Websites, phone numbers, or other documents for more information. But that information in turn was not specific and was open to interpretation. For the instances in which the guide told recipients exactly how to fill out fields, few errors were noted.

EPA does not routinely track activity codes, and these codes are not identified within EPA's data systems. Therefore, staff members were not familiar with them and thus may not identify errors when reviewing recipient reports.

Increased specificity in EPA guidance will reduce recipient-reported errors and increase EPA's ability to verify the accuracy of recipient-reported data. Recipient reports are designed to provide the public with transparency as to how Recovery Act dollars are being spent in their communities. Incorrect data may lead to mistaken conclusions about the funding.

## **Recommendation**

We recommend that the Assistant Administrator for Administration and Resources Management:

- 3-1 Clarify the reference guide to reduce the incidence of varying recipient interpretations. The clarifications should:
  - a. Address whether to use the original date of the award or the date of the amendment for assistance agreements.
  - b. Specify which activity codes to use for assistance agreements.

## **Agency Comments and OIG Evaluation**

In responding to the draft report, EPA agreed to take actions to address the recommendation and provided milestone dates. OARM stated that the Office of Grants and Debarment would work with the EPA Stimulus Tracking and Reporting Subcommittee to make appropriate revisions to the Agency's reference guide and the EPA Standard Review Procedure by October 1, 2010. The planned corrective action meets the intent of the report recommendations. The Agency's full response is in Appendix B.

## Chapter 4

### EPA Should Define Standard Action Limits

EPA program offices selected varying action limits for the award amount data element reported by Recovery Act recipients. The action limits identify the error rate in the award amount data element that EPA program offices will accept as accurate. OMB identified the award amount data element as a major concern for significant reporting errors. Instead of adopting an Agency-wide action limit, EPA allowed program offices to adopt their own action limits. The lack of an Agency-wide action limit could affect the error rate in the award amount data elements. Recipients that underreport or overreport Recovery Act awards could mislead the public because of the significant dollar amounts they receive.

#### OMB Cites Amount of Award as a Data Element of Major Concern

OMB identified the award amount data element as a major concern for significant reporting errors. OMB defined significant reporting errors as those instances in which required data are not reported accurately and such errors result in significant risk that the public will be misled or confused. OMB guidance requires federal agencies to establish data review processes that focus on significant reporting errors.

#### EPA Program Offices Selected Varying Action Limits

EPA program offices selected varying action limits for the award amount data element reported by its Recovery Act funding recipients. These action limits are identified in *EPA Procedure for Review of ARRA Section 1512 Recipient Reported Information*, issued in October 2009. The action limits identify the error rate in the award amount data field that EPA program offices will accept as accurate.

Instead of adopting an Agency-wide action limit, EPA allowed program offices to adopt their own action limits (Table 4-1). The Clean Water State Revolving Fund/Drinking Water State Revolving Fund programs set the action limit at 2 percent, because OMB had not outlined a standard procedure and because the programs had no experience reviewing large amounts of data under extremely tight deadlines. The Leaking Underground Storage Tank program staff decided an action limit of +/-10 percent was reasonable. Representatives from both program offices told us that despite these action limits, they investigated any difference between the recipient-reported award amount and EPA award amount.



**Table 4-1: Program-Identified Action Limits**

<b>Program Offices</b>	<b>Action Limit</b>
Clean Water State Revolving Fund	Greater than 2%
Drinking Water State Revolving Fund	
Water Quality Management Planning	
Leaking Underground Storage Tank	Greater than +/-10%
Superfund	
Brownfields	Any discrepancy
National Clean Diesel	

Source: *EPA Procedure for Review of ARRA Section 1512 Recipient Reported Information*, October 2009.

## Inaccurate Award Amounts Could Mislead Public

Recipients that underreport or overreport Recovery Act awards could mislead the public. By investigating all differences between what the recipient reported and what the EPA data showed for the award amount, EPA may identify systemic issues. For example, for the reporting period ending December 31, 2009, we identified some contract modifications that were either issued near the end of the reporting period or made in the next reporting cycle. Some contract modifications issued near the end of the reporting period that we identified were not included in the recipient-reported totals, while some contract modifications made in the next reporting cycle that we identified were prematurely reported by the recipients in the quarter ending December 31, 2009. By investigating all differences, similar patterns can be identified and then specifically looked for during future reviews. Public confidence increases when recipient-reported data are accurate.

## Recommendation

We recommend that the Assistant Administrator for Administration and Resources Management:

- 4-1 Adopt a policy that requires program offices to investigate all differences – regardless of dollar amount – between what recipients report for their award amount and what EPA has recorded in its information systems.

## Agency Comments and OIG Evaluation

In response to the draft report, OARM stated that the EPA standard review procedure document will be modified to eliminate variances when examining award amounts. The written response did not provide a milestone date, so we followed up with the Director, Office of Grants and Debarment. EPA indicated it will modify the standard review procedure document by September 15, 2010.

The planned corrective action meets the intent of the report recommendations.  
The Agency's full response is in Appendix B.

## **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
2-1	6	Develop an Agency-wide threshold to identify significant errors for those fields OMB identified as major concerns for significant reporting errors.	O	Assistant Administrator for Administration and Resources Management	9/15/2010*		
3-1	9	Clarify the reference guide to reduce the incidence of varying recipient interpretations. The clarifications should: <ul style="list-style-type: none"> <li>a. Address whether to use the original date of the award or the date of the amendment for assistance agreements.</li> <li>b. Specify which activity codes to use for assistance agreements.</li> </ul>	O	Assistant Administrator for Administration and Resources Management	10/01/2010		
4-1	12	Adopt a policy that requires program offices to investigate all differences – regardless of dollar amount – between what recipients report for their award amount and what EPA has recorded in its information systems.	O	Assistant Administrator for Administration and Resources Management	9/15/2010*		

- <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

\* Although the milestone for Recommendations 2-1 and 4-1 have passed, the Agency has not informed the OIG that the corrective actions for these recommendations are completed or provided updated milestones.

**Appendix A*****Details on Scope and Methodology***

We performed audit field work from March to July 2010. We analyzed the Recovery Act and guidance pertaining to EPA's Recovery Act assistance agreements and contracts. We reviewed internal controls related to analyzing and reporting on recipient-provided data. We gained an understanding of internal controls through performance of the procedures outlined below:

- We gathered recipient data from [www.FederalReporting.gov](http://www.FederalReporting.gov) and assistance agreements and contracts data from EPA's internal data systems. We then compared the two sets of data using data mining software. After organizing the data discrepancies we found by EPA program, we asked the relevant programs about the discrepancies we found for the key data fields and documented the results. The information provided from [Federalreporting.gov](http://Federalreporting.gov), and EPA's internal data systems were sufficient for the purposes of our review.
- We interviewed a senior advisor on the Tracking and Reporting Subcommittee of the EPA Stimulus Steering Committee and a senior analyst in the Office of Environmental Information. We interviewed points of contact in the Clean Water and Drinking Water State Revolving Funds as well as in the Offices of Acquisition Management, Grants and Debarment, the Chief Financial Officer, Air and Radiation, Solid Waste and Emergency Response, and Administration and Resources Management. We also interviewed personnel in the Water Quality Management Planning and Construction Grants and Territories programs.

We reviewed relevant criteria documents, such as OMB's M-10-08 guidance, issued December 18, 2009, and the *EPA Procedure for Review of ARRA Section 1512 Recipient Reported Information*, issued in October 2009.

## Appendix B

***Agency Response to Draft Report***

August 26, 2010

**MEMORANDUM**

**SUBJECT:** Draft Audit Report:  
*EPA Effectively Reviewed Recovery Act Recipient Data but Opportunities for Improvement Exist*  
(Project No. 2010-1222)

**FROM:** Craig E. Hooks  
Assistant Administrator

**TO:** Janet Kasper  
Director, Contracts and Assistance Agreement Audits

Thank you for the opportunity to comment on the draft audit report, “EPA Effectively Reviewed Recovery Act Recipient Data but Opportunities for Improvement Exist (Project No. 2010-1222).”

I am pleased that the report recognizes the steps EPA has taken to carry out our responsibilities to review recipient-reported information in accordance with Section 1512 of the American Recovery and Reinvestment Act (ARRA). The report also recognizes the Agency’s proactive approach to reviewing recipient information and concludes that EPA’s system of controls resulted in low error rates. Additionally, I want to commend the OIG for the analytical method used in the report to compare authoritative Agency master list information to recipient-reported extracted data. This method provides an extra macro-level check of Section 1512 data to identify potential deficiencies, and has been adopted by our Stimulus Tracking and Reporting Subcommittee.

The report contains three recommendations designed to improve the process for identifying significant reporting errors, clarify guidance to recipients and establish a more stringent threshold for identification of errors. OARM’s response to these recommendations is presented below.

**Recommendation #1:** Develop an Agency-wide threshold for identifying significant errors for those fields OMB identified as significant.

**OARM Response:** EPA is required to follow the guidance issued to all agencies and departments contained in OMB M-10-08 as well as supplemental instructions contained in OMB M-09-21 to identify significant errors. The threshold established by OMB in this guidance suggests significant errors are instances where incorrect data results in “significant risk the public will be misled.” As agencies implement this threshold, OMB has indicated they must make a judgment regarding the materiality of any data discrepancy and its potential to present a significant risk of misleading the public. Rather than attempt to redefine OMB’s definition of a significant error as suggested by the OIG recommendation, EPA will tighten the threshold for acceptable variances for key data elements identified in OMB M-09-21. The tightened action limits are discussed further in our response to Recommendation #3.

OARM also notes a relevant recommendation of the United States Department of Agriculture’s (USDA) OIG multi-agency audit of data quality review processes dated June 25, 2010. In that audit, which also addressed EPA’s processes, the USDA OIG recommended that the Recovery, Accountability and Transparency Board provide additional guidance to agencies to ensure consistency and uniformity in addressing significant errors. We support this recommendation and are prepared to apply the Board’s guidance when issued to our future Section 1512 reviews.

**Recommendation #2:** Clarify guidance to reduce the need for recipients to interpret the reference guide for their specific award. The clarifications should (1) address whether to use the original date of the award or the date of the amendment for assistance agreements, and (2) specify exactly which activity codes to use for assistance agreements.

**OARM Response:** OARM agrees with this recommendation. EPA’s Office of Grants and Debarment (OGD), working with the EPA Stimulus Tracking and Reporting Subcommittee, will make appropriate revisions to the Agency’s reference guide and the EPA Standard Review Procedure document prior to the next Section 1512 review cycle beginning October 1, 2010.

**Recommendation #3:** Adopt a policy that requires program offices to investigate all differences – regardless of dollar amount – between what recipients report for their award amount and what EPA has recorded in its information systems.

**OARM Response:** OARM agrees with this recommendation. The EPA Standard Review Procedure document will be modified to eliminate variances when examining award amounts.

Thank you for the opportunity to comment on the report. If you have any questions about these comments, please contact Howard Corcoran, Director, OGD, at (202) 564-1903 or Don Flattery, Chair, Stimulus Tracking and Reporting Subcommittee, at (202) 564-4677.

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**Appendix C*****Distribution***

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