



U.S. ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF INSPECTOR GENERAL

Early Warning Report: Internal Controls and Management Actions Concerning John C. Beale Pay Issues

Report No. 14-P-0036

December 11, 2013



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Abbreviations

CIA	Central Intelligence Agency
EPA	U.S. Environmental Protection Agency
OAR	Office of Air and Radiation
OARM	Office of Administration and Resources Management
OGC	Office of General Counsel
OHR	Office of Human Resources
OIG	Office of Inspector General

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At a Glance

Why We Did This Review

John C. Beale, a former Senior Policy Advisor within the U.S. Environmental Protection Agency (EPA) Office of Air and Radiation, committed fraud against the EPA. The EPA Office of Inspector General (OIG) concluded it would need to determine conditions that may have allowed Mr. Beale's actions to take place. On August 27, 2013, the Ranking Member of the Senate Committee on Environment and Public Works requested that the EPA OIG initiate work to determine "the agency's policies and processes that facilitated Mr. Beale's fraud."

This report addresses the following EPA theme:

- *Embracing EPA as a high performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20131211-14-P-0036.pdf

Early Warning Report: Internal Controls and Management Actions Concerning John C. Beale Pay Issues

What We Found

Internal controls that the EPA had in place did not identify and/or prevent abuses related to:

- Retention bonuses.
- Pay in excess of statutory limits.
- Time and attendance.

The fraud committed by John C. Beale was enabled by ineffective internal controls and a lack of management attention.

EPA management actions in dealing with Beale while he was working at the EPA enabled Beale's fraud in areas related to internal control issues, and were influenced by Beale's claims regarding his Central Intelligence Agency (CIA) status and retirement. Specifically:

- Agency managers did not take timely, effective action to address Beale's retention bonus and pay in excess of statutory limits even though they were presented with these issues in July 2010.
- Management believed that Beale's pay issues were an administrative matter, and did not consider the matter a priority for them to address.
- Agency management thought Beale had retired at the end of 2011, but Beale did not retire from the EPA until 2013.
- The EPA's internal controls over timekeeping facilitated Beale's time and attendance abuses.

Management Actions Taken

The EPA Office of Administration and Resources Management and Office of the Chief Financial Officer identified internal control improvements that could be made to prevent and/or detect payroll and time and attendance issues, including:

- Modification to the time and attendance system to ensure managers approve individual employee timecards.
- Quarterly review of time and attendance records to confirm employees are entering and attesting their own time and determine whether someone other than the supervisor is approving the timecard.
- Quarterly review to determine whether an employee is receiving a retention bonus or has been paid over the statutory pay cap.

The OIG has not verified the implementation and adequacy of the agency's identified improvements.



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

THE INSPECTOR GENERAL

December 11, 2013

MEMORANDUM

SUBJECT: Early Warning Report: Internal Controls and Management Actions Concerning
John C. Beale Pay Issues
Report No. 14-P-0036

FROM: Arthur A. Elkins Jr.

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

TO: Gina McCarthy, Administrator

This is our early warning report, prepared by the Office of the Inspector General at the request of the Honorable David Vitter, Ranking Member, Committee on Environment, and Public Works, United States Senate. This report addresses three areas in which John C. Beale, the former Senior Policy Advisor for the U.S. Environmental Protection Agency's (EPA) Office of Air and Radiation, defrauded the EPA: retention bonus, salary above federal statutory limits, and time and attendance.

If you or your staff have any questions regarding this report, please contact Richard Eyermann, Acting Assistant Inspector General for Audit, at (202) 566-0565 or at eyermann.richard@epa.gov; or Robert Adachi, Director, Forensic Audits, at (415) 947-4537 or adachi.robert@epa.gov.

U.S. EPA Office of Inspector General

Internal Controls and
Management Actions Concerning
John C. Beale Pay Issues

December 11, 2013

Background

- John C. Beale committed fraud against the U.S. Environmental Protection Agency (EPA).
- OIG concluded it needed to determine the conditions that may have contributed to Mr. Beale's actions.
- August 27, 2013: Ranking Member of the Senate Committee on Environment and Public Works made request to review Beale matter.
- September 27, 2013: Beale pleaded guilty to theft of government property and:
 - Ordered to pay \$886,186 in restitution to the EPA.
 - Agreed to a forfeiture money judgment of \$507,207.



Assignment Objective

- Determine the agency's policies and processes that facilitated Beale's fraud.
- The assignment was performed in accordance with Generally Accepted Government Auditing Standards.



Scope of Report

- Report covers the policies and processes that facilitated Beale's fraud in connection with:
 - Retention bonuses.
 - Pay above statutory pay limits.
 - Time and attendance.
- The Office of Inspector General's (OIG's) review included:
 - Analysis of emails, payroll and personnel records.
 - Interviews with agency management and staff.



Scope Limitation

- An EPA Office of General Counsel (OGC) staff attorney involved with the Beale matter declined to be interviewed as part of this request as is required under Section 6(a) of the Inspector General Act.
- Declination does not represent the position of OGC.
- As a result of such information or assistance not being provided to the Inspector General, we were limited in our ability to determine OGC's involvement in, knowledge of and actions related to the Beale matter. (See slide 20 for extent of scope limitation.)



Summary of Results

- Internal controls that the EPA had in place did not identify and/or prevent payroll issues related to:
 - Retention bonuses.
 - Pay in excess of statutory limits.
 - Time and attendance.
- Agency management actions while Beale was working at the EPA:
 - Enabled Beale’s fraud in areas related to internal control issues.
 - Influenced by Beale’s “CIA [Central Intelligence Agency] status” and retirement.



Retention Bonus

Ineffective Internal Controls

- EPA's payroll system does not have automated controls in place to monitor retention bonuses.
 - The payroll system defaults to continue to pay retention pay unless stopped.
- The Office of Air and Radiation (OAR) did not have a process to ensure annual recertification of retention bonuses as required by Chapter 3 of EPA Pay Administration Manual.



Agency Identified Corrective Measures Regarding Retention Bonus *

- Will monitor retention bonuses paid – quarterly review through payroll system.
- Performed internal control assessment – program and regional offices did not fully understand or follow the process:
 - Prepared an HR Bulletin on retention bonus.
 - Plans to update existing policy.
- Have reviewed annual retention incentive recertification process – annual reviews were not performed timely by program and regional offices:
 - Retention incentives are processed for one-year increments and include a not-to-exceed date of one year, with a total three-year limit.
 - Annual certification.
 - Semiannual review for proper authorization.

* Agency corrective measures have not been confirmed and evaluated by the OIG.



Statutory Pay

Overridden Internal Controls

- Automated controls to cap pay at statutory limits were manually bypassed to accommodate EPA Pay Series SL:
 - Pay series SL is used for Senior Level positions.
- EPA coded Beale as a “C” employee:
 - The “C” employee code designates critical pay positions authorized by Office of Personnel Management that can exceed statutory limit.
 - “C” code used to force the system to accept Beale’s salary.
 - Once the amounts were entered, “C” code was not removed, resulting in Beale exceeding statutory limits without detection.



Agency Identified Corrective Measures Regarding Statutory Pay *

- Review pay period reporting to ensure established statutory earning limitation is not exceeded.
- Monitor statutory pay limits – quarterly review through payroll system to identify employees paid over the statutory pay limit.

* Agency corrective measures have not been confirmed and evaluated by the OIG.



Time and Attendance

Lack of Internal Controls

- EPA's timekeeping system facilitated abuses:
 - Timekeeper can enter and verify time for any EPA employee. Employees are not required to attest to the accuracy of their time and attendance.
 - Managers are allowed to “mass approve” groups of employees in order to expedite payroll processing.
- Timekeepers instructed to complete Beale's time and attendance.
- OAR immediate office staff “mass approved” time (including Beale) without any supervisory review.



Agency Identified Corrective Measures Regarding Time and Attendance *

- Removed “approval all” button and will require managers to approve each timecard individually.
- Initiated quarterly review of time and attendance records to confirm employees are entering and attesting their own time and required EPA offices to explain anomalies.
- Planned quarterly review of time and attendance records to determine whether someone other than supervisor is approving the timecard – will require EPA office to explain anomalies.

* Agency corrective measures have not been confirmed and evaluated by the OIG.



Agency Identified Related Reviews*

- The EPA Office of the Chief Financial Officer began internal control assessments in November 2013 and plans to conclude in February 2014.

Areas of review include:

- Executive payroll approvals.
- Employee departures and payroll.
- Parking and transit subsidy.
- Retention bonus.

*Agency reviews have not been confirmed and evaluated by the OIG.



Management Inaction on Retention Bonus and Statutory Pay

- EPA management did not take timely, effective action to address Beale's retention bonus and pay in excess of statutory limits.



Chronology of Retention Bonus and Statutory Pay Issues

- June 2010: OIG identified Beale payroll discrepancy during annual financial statement audit. Made inquiries to the EPA Office of Administration and Resources Management-Office of Human Resources (OARM-OHR).
- June 2010: OARM-OHR research determined that the discrepancy resulted in Beale exceeding the statutory pay limit because of retention bonus pay.
- July 16, 2010: OARM-OHR prepared document entitled “John Beale Pay Issues” that discussed his retention bonus and statutory pay issues. Document was provided to OAR on the same date.



OARM-OHR July 16, 2010, Document Conclusions

- Retention bonus first authorized in 1991 and recertified in 1992 and 1993.
- OAR submitted a new three-year request in 2000. No re-certifications or new requests were submitted between 1994 and 1999 or after 2000.
- Beale exceeded the Executive Level 1 statutory pay limit in 2008 and 2009.
- If bonus continued through 2010, Beale's aggregate pay would again exceed the statutory pay limit.



OARM-OHR July 16, 2010, Document Recommendations

1. Confirm whether OAR had documentation to support retention bonuses received by Beale.
2. Assist OAR in preparing a new request and affirmation if OAR wanted bonuses to continue.
3. Verify that Beale's aggregate pay for 2008/2009 exceeded the pay cap, and when the 2010 pay cap will be exceeded.
4. Notify the agency's payroll office and OGC of issue and request information about the agency's waiver process, if applicable.
5. Notify Beale of the overpayment and provide employee with waiver process, if applicable.



Chronology of Management Actions on Retention Bonus

- January 12, 2011: Recommendation made by OGC to OAR staff to stop retention bonus pay.
- January 17, 2011: Assistant Administrator for OAR requested by Assistant Administrator for OARM “to hold information exchange” with Beale.
- April 2, 2012: Assistant Administrator for OAR confirmed no actions taken on retention bonus due to advice of Assistant Administrator for OARM.
- February 5, 2013: Assistant Administrator for OAR advised Beale that retention bonus was cancelled.



Management Concern About Pay Issues

- Management believed that the pay issues were:
 - A human resource issue or administrative matter and not a criminal matter.
 - Being handled by OARM and OGC.
- The Assistant Administrator for OAR relied upon the Assistant Administrator for OARM for guidance.



Impact of Unknown “CIA” Status

- Early 2011: References began to surface that Beale was a CIA agent
 - It was presumed that Beale was a CIA employee.
 - Management did not want to compromise national security or jeopardize Beale’s cover. This concern seemed to override decision making on retention bonus and pay issues.
 - OARM did not confirm Beale’s CIA status.
- November 13, 2012: OGC contacted the EPA-Office of Homeland Security. *

* Timing and extent of OGC’s involvement is unknown due to scope limitation (see slide 5 for details).



Beale Not Retired – Still on Payroll

- Beale’s supposed retirement delayed agency action by the EPA because his “retirement” solved pay problems.
- Problem resurfaced when the agency found that Beale had not retired and was still being paid as a result of time and attendance issues:
 - Timekeeper instructed to enter Beale’s time and attendance.
 - Mass approval of time – no supervisory approval.



“Retirement” Timeline

- September 22, 2011: Beale retirement party held. Attendees included Assistant Administrator for OAR.
- March 29, 2012: Assistant Administrator for OAR was asked by OAR staff if Beale provided retirement date:
 - Assistant Administrator for OAR wrote that she thought Beale had retired.
- April 2, 2012: Assistant Administrator for OAR was notified that Beale had been paid through March 24, 2012, asked Assistant Administrator for OARM to determine why Beale was still being paid.
- April 30, 2013: Beale officially retires.



Future OIG Reports

- Future reports covering all of EPA will be issued on:
 - Retention bonuses.
 - Pay above statutory pay limits.
 - EPA's vetting process for new employees.
 - Travel.



Other Work to Be Performed

- Preliminary research initiated on a review of time and attendance issues within the EPA.
- Scope of additional audit work will be dependent upon results of preliminary research.



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