



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

U.S. DEPARTMENT OF THE INTERIOR'S COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 IN ITS FISCAL YEAR 2014 "AGENCY FINANCIAL REPORT"




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MAY 14 2015

Memorandum

To: Secretary Jewell

From: Mary L. Kendall 
Deputy Inspector General

Subject: Final Inspection Report – U.S. Department of the Interior’s Compliance With the
Improper Payments Elimination and Recovery Act of 2010 in its Fiscal Year 2014
“Agency Financial Report”
Report No. 2015-FIN-035

This memorandum transmits the results of our inspection of the “Summary of Improper Payments” section in the U.S. Department of the Interior’s (DOI) fiscal year (FY) 2014 “Agency Financial Report” (AFR) to determine whether DOI met the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Information Act of 2002 (IPIA). In addition, we evaluated the accuracy and completeness of DOI’s reporting of improper payments and its performance in reducing and recapturing improper payments.

We conducted our inspection in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe that the work performed provides a reasonable basis for our conclusions.

We make one recommendation that, if implemented, will bring DOI into compliance with improper payment reporting requirements related to its Hurricane Sandy funding, in accordance with guidance from the Office of Management and Budget (OMB).

Background

IPERA, which became law on July 22, 2010, amended IPIA to prevent the loss of taxpayer dollars through improper payments. OMB issued governmentwide guidance on the implementation of IPERA in April 2011. This guidance was updated on October 20, 2014, as OMB Memorandum M-15-02.

IPERA requires each agency to follow OMB guidance to periodically identify and review all programs and activities that may be susceptible to significant improper payments. IPERA defines significant improper payments in a fiscal year as (1) \$10 million of all program or activity payments made and 1.5 percent of total program outlays, or (2) \$100 million. For each program and activity identified, the agency must produce a statistically valid estimate or an OMB-approved estimate of the improper payments and include the estimates in the

accompanying materials for its annual financial statements. The agency then prepares a report on the actions it has taken to reduce improper payments for programs or activities with significant improper payments. The report must describe the causes of the improper payments and include a corrective action plan.

An agency must also report on the actions it took to recover the identified improper payments. The report should include—

- a discussion of the methods used to recover overpayments;
- the amounts recovered, amounts outstanding, and amounts determined not collectable, including the percentage of these amounts that represent the agency's total overpayments;
- a justification for determining why certain overpayments are not collectable;
- an aging schedule of the amounts outstanding;
- a summary of how the agency uses recovered amounts; and
- a discussion of any conditions causing improper payments and how those conditions are being resolved.

The agency must also provide a justification if it has determined that it was not cost effective to perform a recovery audit for any program or activity.

Scope and Methodology

OMB guidance specifies that each agency's Inspector General should review the agency's improper payment reporting in its annual "Performance and Accountability Report" (PAR) or AFR and accompanying materials to determine whether the agency has complied with IPERA.

According to OMB guidance, compliance with IPERA means that the agency has—

- published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency's website;
- conducted a specific risk assessment for each program or activity in the fiscal year that conforms with 31 U.S.C. § 3321 (if required);
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- published programmatic corrective action plans in the PAR or AFR (if required);
- published and met annual reduction targets for each program assessed to be at risk and measured for improper payments;
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR; and
- reported information on its efforts to recapture improper payments.

If the Inspector General determines that an agency did not comply with all of these requirements, the agency did not comply with IPERA. The Inspector General should also

evaluate the accuracy and completeness of the agency's reporting of improper payments and its performance in reducing and recapturing improper payments.

Results of Inspection

As required by IPERA, DOI published an AFR for FY 2014 and posted the report on its website. Based on the results of its FY 2012 risk assessments and in accordance with OMB guidance, DOI placed its programs on a 3-year risk assessment cycle, with the next cycle due in FY 2016.

In FY 2013, however, DOI received \$786.7 million to support Hurricane Sandy relief efforts. In accordance with OMB M-13-07, "Accountability for Funds Provided by the Disaster Relief Appropriations Act," Federal agencies that support Hurricane Sandy relief efforts must implement additional internal controls to prevent fraud, waste, and abuse of these funds. OMB M-13-07 also requires agencies to manage Hurricane Sandy relief funds in the same manner as programs designated as high risk for improper payments. Although DOI did include information in its FY 2014 AFR regarding Hurricane Sandy funding, it did not specifically include a determination of the amount of outlays related to Hurricane Sandy funding, nor did it include an estimated error rate and dollar amount for improper payments on Hurricane Sandy expenditures, as required by OMB M-13-07. Specifically, OMB M-13-07 states: "Simply put, all Federal programs or activities receiving funds under the Act are automatically considered susceptible to significant improper payments, regardless of any previous improper payment risk-assessment results, and are required to calculate and report an improper payment estimate."

DOI officials confirmed that they had not determined the amount of Hurricane Sandy outlays that occurred in FY 2014. We therefore recommend that for FY 2015 and beyond, DOI establish effective policy and procedures to ensure that actual outlays for disaster relief funding are determined at the end of each fiscal year, as well as a methodology to report in the AFR an estimated error rate and dollar amount for improper payments in disaster relief funding.

We also found that in FY 2014, DOI discontinued its payment recapture audit program after informing OMB that based on analysis and low rates of improper payments, the cost of executing a payment recapture audit program has outweighed the benefits of finding and recovering erroneous payments. In FY 2014, of \$34 billion in outlays reviewed, the recapture program uncovered \$127,000 in erroneous payments, which represents an improper payment rate of .000375.

Recommendation

We recommend that the Director, Office of Financial Management (PFM), establish policy and procedures to determine and report an estimated error rate and dollar amount for improper payments in disaster relief funding in each fiscal year's AFR.

We request that the PFM Director provide a written response to this report within 30 days. The response should provide information on actions taken or planned to address the recommendation, as well as target dates and title(s) of the official(s) responsible for implementation. Please send your response to:

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The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions, please contact me at 202-208-5745.

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