



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

**MAY 11 2016**

Memorandum

To: Secretary Jewell

From: Mary L. Kendall  
Deputy Inspector General

A handwritten signature in blue ink, appearing to read "Mary L. Kendall", written over the printed name and title.

Subject: U.S. Department of the Interior's Compliance With the Improper Payments Elimination and Recovery Act of 2010 in its Fiscal Year 2015 "Agency Financial Report"  
Report No. 2016-FIN-028

We reviewed the "Summary of Improper Payments" section in the U.S. Department of the Interior's (DOI) fiscal year (FY) 2015 "Agency Financial Report" (AFR) to determine whether DOI met the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). As a result of our review, we concluded that DOI did not comply with IPERA.

IPERA requires each agency to follow Office of Management and Budget (OMB) guidance to periodically review and identify all programs and activities that may be susceptible to significant improper payments. IPERA defines significant improper payments as (1) more than \$10 million of all program or activity payments made during the fiscal year reported and 1.5 percent of total program outlays or (2) more than \$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 to 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.

The OMB guidance further specifies that each agency's Inspector General should review the agency's improper payment reporting published in the agency's annual "Performance and Accountability Report" (PAR) or AFR and accompanying materials to determine whether the agency has complied with IPERA. An agency must follow six requirements to comply with IPERA, and we concluded that DOI did not comply with two of these requirements (see Figure 1).

IPERA Requirements	DOI Compliance
The agency published a PAR or AFR for the most recent fiscal year and posted that report on its website.	YES
The agency conducted a specific risk assessment for each program or activity in that fiscal year or obtained a waiver from OMB.	NO
The agency published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.	NO
The agency published programmatic corrective action plans in the PAR or AFR.	YES
The agency published and met annual reduction targets for each program assessed to be at risk and measured for improper payments.	YES
The agency 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.	YES

Figure 1. IPERA criteria with which DOI did or did not comply.

First, we found that DOI did not comply with IPERA in FY 2015 because it did not complete the required risk assessments. We reported in FY 2013 that based on the results of DOI’s 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 2015. We found, however, that DOI did not prepare a new risk assessment review of each of its programs and activities. Instead, DOI extended its FY 2012 assessments into a fourth year. By law,<sup>1</sup> IPERA states that agencies must conduct risk assessments of all programs and activities administered by the agency head during the year after which it was enacted (2010) and at least once every 3 fiscal years thereafter.

Without conducting the appropriate risk assessments as scheduled, DOI may fail to identify programs or activities that meet the threshold requirement for reporting an improper payment rate.

Second, we found that DOI did not report a valid improper payment rate related to disaster-relief funding as required by OMB.<sup>2</sup> Under the Disaster Relief Act, DOI received \$829.2 million to support Hurricane Sandy relief efforts. In FY 2015, DOI incurred \$165.1 million in

<sup>1</sup> Public Law 111-204 § 2.(a)(2)

<sup>2</sup> OMB Memorandum M-15-02, “Appendix C to Circular No. A-123, Requirements For Effective Estimation and Remediation of Improper Payments,” dated October 20, 2014.

outlays directly related to Hurricane Sandy. OMB guidance requires Federal agencies that support Hurricane Sandy relief efforts to implement additional internal controls to prevent fraud, waste, and abuse of these funds and to manage Hurricane Sandy relief funds in the same manner as programs designated as high risk for improper payments.<sup>3</sup>

The improper payment rates of .000375 percent and 0 percent that DOI reported were not based on a valid statistical sample and appear too low for high-risk disaster-relief program expenditures. We also found that DOI did not have a Departmentwide standardized statistical sampling and estimation plan that was prepared by a trained statistician and approved by OMB as required.<sup>4</sup> As a result, the bureaus provided inconsistent and incomplete disaster-relief testing data and methodologies to DOI that DOI used for its FY 2015 reporting.

DOI's failure to identify a valid and accurate estimated improper payment rate and amount in its FY 2015 AFR could negatively affect the amount of funding that Congress provides to DOI for future disaster-relief efforts.

Based on our findings, we recommend that DOI:

1. perform a risk assessment of all programs for its FY 2016 IPERA reporting;
2. establish a Departmentwide sampling methodology prepared by a trained statistician in accordance with OMB requirements sufficient to produce a valid and consistent sample of disaster-relief transactions in order to project a valid estimated improper payment rate in its annual IPERA reporting; and
3. validate all sampling results to ensure that a valid rate is obtained before reporting in the AFR.

We request that the Director of the Office of Financial Management provide us with a written response to this report within 30 days. The response should provide information on the actions taken or planned to address the recommendations, as well as target dates and titles of the officials responsible for implementing these actions. Please send your response to [aie\\_reports@doioig.gov](mailto:aie_reports@doioig.gov).

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

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

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<sup>3</sup> OMB Memorandum M-13-07, "Accountability for Funds Provided by the Disaster Relief Appropriations Act," dated March 12, 2013.

<sup>4</sup> OMB Memorandum M-15-02, Part I A. 9) Step 2.1 and Step 2.2.