



INSPECTOR GENERAL

April 14, 2023

Architect of the Capitol's Internal Control Plan Lacked Procedures to Assess and Monitor Payment Accuracy

Report No. OIG-AUD-2023-05

MISSION

The OIG promotes efficiency and effectiveness to deter and prevent fraud, waste and mismanagement in AOC operations and programs. Through value-added, transparent and independent audits, evaluations and investigations, we strive to positively affect the AOC and benefit the taxpayer while keeping the AOC and Congress fully informed.

VISION

The OIG is a high-performing team, promoting positive change and striving for continuous improvement in AOC management and operations. We foster an environment that inspires AOC workforce trust and confidence in our work.



Results in Brief

AOC's Internal Control Plan Lacked Procedures to Assess and Monitor Payment Accuracy

April 14, 2023

Objective

The objective of this audit was to assess the Architect of the Capitol's (AOC's) internal control and risk assessment program's internal control plan to monitor payment accuracy. Specifically, the audit assessed the effectiveness of AOC's internal control plan over payments to vendors for construction efforts, professional services and goods procured during the course of normal operations.

The AOC Office of Inspector General (OIG) contracted KPMG, LLP to conduct the audit.

Findings

We assessed the AOC's internal control plan and determined that the AOC had internal controls to mitigate risks related to the processing of improper payments during origination (initial contractual setup and payment). However, we found the plan did not align with the Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget (OMB) Circular A-123, Appendix C, for assessing risks of significant improper payments and evaluating payment accuracy after payment processing. Specifically, the AOC did not have procedures to assess risks and monitor payment accuracy in its programs and activities.

We tested a sample of 51 vendor payments valued at \$48.9 million from the total

Findings (Cont'd)

fiscal year 2021 vendor payment population of \$456 million. While we found no instances of payment control deficiencies, improper payments or payments to ineligible recipients, the AOC internal control plan did not require the agency to assess its programs and activities for susceptibility to significant improper payments. According to the AOC, monthly and quarterly reviews were used to identify inaccurate payments and determine the effectiveness of controls over obligation and payment processes. We determined that the Quarterly Financial Reviews only assessed the validity of the AOC's unliquidated and/or dormant obligations. We did not identify any processes that assessed risks of significant improper payments or to monitor payment accuracy within its programs and activities.

In accordance with the PIIA and OMB guidance, any program or activity with identified annual improper payments that exceed both 1.5 percent of program payments and \$10 million are considered significant. The AOC had not incorporated an assessment or review of all programs and activities to identify those that were susceptible to significant improper payments, which is the initial step to assess and monitor for payment accuracy.

Recommendations

We made the following three recommendations to assist the AOC in aligning with federal guidance to assess risks of significant improper payments and to monitor payment accuracy within its programs and activities:

1. AOC management should develop a process that will assess and monitor payment accuracy in its program and activities, including the following:



Results in Brief

AOC's Internal Control Plan Lacked Procedures to Assess and Monitor Payment Accuracy

- a. The process should include procedures to identify and assess all programs and activities that are susceptible to significant improper payments annually (max triennially).
- b. For programs and activities identified as susceptible to significant improper payments, the AOC should consider the following procedures using OMB guidance:
 - i. Perform testing to estimate the cost of improper payments in the program;
 - ii. Implement a plan to reduce erroneous payments;
 - iii. Report estimates of the annual amount of improper payments in programs and activities and progress towards reducing them within the Performance and Accountability Report
2. Once developed, AOC management should execute the process that assesses and monitors payment accuracy in its program and activities every one to three years.
3. AOC management should design a recovery plan that is consistent with federal regulations and guidance for implementation when improper payments are identified.

The AOC provided comments on March 30, 2023, see Appendix E. AOC management concurred with the AOC OIG's three recommendations designed to assist the AOC in aligning with federal guidance to assess the risk of significant improper payments and monitor for payment accuracy within its programs and activities.

Please see the Recommendations Table on the following page.

Management Comments

The AOC was provided with an opportunity to comment in response to this report.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Office of the Chief Financial Officer	NONE	1, 2 and 3	NONE

The following categories are used to describe agency management’s comments to individual recommendations:

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The AOC OIG verified that the agreed upon corrective actions were implemented.



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United States Government

MEMORANDUM

DATE: April 14, 2022

TO: Chere Rexroat, RA
Acting Architect of the Capitol

FROM: Christopher P. Failla, CIG 
Inspector General

SUBJECT: Architect of the Capitol's (AOC's) Internal Control Plan Lacked
Procedures to Assess and Monitor Payment Accuracy (Report No.
OIG-AUD-2023-05)

The AOC Office of Inspector General is transmitting KPMG, LLP's (KPMG's) final report on the AOC's internal control plan for payment accuracy (OIG-AUD-2023-05). Under contract LCOIG21F0004-F003 monitored by my office, KPMG, an independent public accounting firm, conducted this performance audit in accordance with the *Generally Accepted Government Auditing Standards* (GAGAS) and Consulting Services Standards established by the American Institute of Certified Public Accountants. In connection with the contract, we reviewed KPMG's report and related documentation. Our review disclosed no instances where KPMG did not comply with GAGAS.

We concluded that the AOC's internal control plan had internal controls to mitigate risks related to the processing of improper payments during origination (initial contractual setup and payment); however, the plan did not align with federal guidance for assessing the risk of significant improper payments and monitoring payment accuracy. We issued three recommendations designed to assist the AOC in aligning with federal guidance to assess the risk of significant improper payments and monitor payment accuracy within its programs and activities.

In our review of the AOC's Management Comments, we determined that the proposed corrective actions meet the intent of our recommendations. The next step in the audit resolution process is for AOC management to issue a Notice of Final Action that outlines the actions taken to implement the agreed upon recommendations. This notice is due one year from the date of report finalization, April 14, 2024.

We appreciate the courtesies extended to the staff during the audit. Please direct questions to Nikki Robinson, Senior Auditor, at 202.437.5324 or nikki.robinson@aoc.gov.

Distribution List:

Mary J. Pajak, Deputy Chief of Staff
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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

April 12, 2023

Inspector General of the Architect of the Capitol
Acting Architect of the Capitol:

This report presents the results of our work conducted to address the performance audit objectives related to the Architect of the Capitol's (AOC) Improper Payments for fiscal year (FY) 2021. Our work was performed during the period of June 2, 2022 to April 12, 2023, and our results are as of April 12, 2023.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) in the 2018 *Government Auditing Standards*. These standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to the GAGAS, we conducted this performance audit in accordance with the Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The objective of our performance audit is to assess AOC's internal control and risk assessment program's internal control plan to monitor payment accuracy. Specifically, the audit assessed the effectiveness of AOC's internal control plan over payments to vendors for construction efforts, professional services, and goods procured during the course of normal operations.

As our performance audit report further describes, we identified one finding and three related recommendations as a result of the work performed to meet the above-stated audit objective.

Refer to Appendix A for a discussion of the scope and methodology, Appendix B for detailed criteria relevant to the performance audit, Appendix C for our review of internal controls, and Appendix E for management's response.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use and reliance of the Architect of the Capitol and the AOC Office of the Inspector General.

KPMG LLP

INTRODUCTION

Background

The Architect of the Capitol (AOC) is the builder and steward of the landmark buildings and grounds of Capitol Hill. Its staff preserves and maintains the historic buildings, monuments, art and inspirational gardens on the Capitol campus, which includes more than 18.4 million square feet of facilities, more than 570 acres of grounds and thousands of works of art. The mission of the AOC is to serve Congress and the Supreme Court, preserve America’s Capitol and inspire memorable experiences. The strategic goals of the AOC include maintaining awe-inspiring facilities, providing extraordinary services, fostering an innovative and empowered workforce, and operating as one team dedicated to one mission.¹

The Payment Integrity Information Act of 2019 (PIIA) requires federal agencies to reduce improper and erroneous payments. Further guidance on reporting improper payment is provided by Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (OMB Memorandum M-21-19). As a legislative branch agency, the AOC is not subject to PIIA, nor to the related OMB guidance. However, as part of its internal control and risk assessment program, the AOC has an internal control plan in place to monitor payment accuracy. As part of this effort, the AOC refers to PIIA and OMB Circular A-123, Appendix C for guidance.²

The AOC’s budgetary resources for fiscal year (FY) 2021 amounted to \$1.008 billion and comprised appropriations and authorized transfers. Total gross costs for FY 2021 were \$832.6 million, of which \$335.7 million were related to payroll and benefits expenses. The AOC processed \$456 million in payments primarily to vendors for construction efforts, professional services and goods procured during normal operations. The remaining \$40.9 million in expenses were related to accounts payable and intragovernmental expenses.³

Table 1: AOC Vendor Payments by Jurisdiction

Jurisdiction	Population Amount
U.S. Botanic Garden	\$4,849,037
Capitol Building	\$12,404,883
Capitol Grounds and Arboretum	\$4,770,907
Capitol Police Buildings, Grounds and Security	\$41,633,116
General and Administrative	\$52,819,729
House Office Buildings	\$116,744,400

¹ AOC. 2021. *Performance and Accountability Report (PAR)*. Performance and Accountability Highlights, p. i.

² AOC. 2021. PAR, Payment Integrity, p. 150.

³ This information is per September 30, 2021, general ledger 6100.00 expense reconciliation.

Supreme Court Building and Grounds	\$22,183,196
Library Buildings and Grounds	\$37,867,774
Other	\$0
Capitol Power Plant	\$86,252,893
Senate Office Buildings	\$55,721,310
Senate Restaurant	\$144,517
Supreme Court	\$7,625,121
U.S. Capitol Visitor Center	\$12,953,331
Total	\$455,970,214

The AOC's Office of the Chief Financial Officer (OCFO) has a key role in managing payments to vendors. As noted previously, the AOC's internal control plan is used to monitor payment accuracy, which the OCFO manages. The internal control plan includes reviews of vendors, payments and a Quarterly Financial Review (QFR) of unliquidated obligations.⁴ According to the AOC, the QFR is used to identify inaccurate payments and determine the effectiveness of controls over obligation and payment processes.

Internal Control Plan for FY 2021

Vendor and Payment Review

According to AOC personnel, the AOC initiates its procurement process by soliciting bids from vendors when a requirement for goods or services is identified. Once a contract for goods or services is awarded through the AOC's procurement process, the contract is uploaded into the Financial Management System (FMS). FMS verifies the vendors' information using the System for Award Management (SAM.gov) to ensure the vendor is registered and not excluded from receiving federal contracts. Vendor information is then loaded into the Department of the Treasury's (Treasury's) Invoice Processing Platform (IPP). The AOC uses IPP, a secure online platform interfaced with FMS, to centralize its invoice payment process. By using IPP, the AOC meets the requirements of the Treasury's Do Not Pay initiative, which also verifies a vendor's eligibility for payment.

Once goods and services are rendered, the vendor enters the invoice into IPP for AOC approval. The Contracting Officer's Representative (COR) serves as the first level of review. The COR reviews the invoice and signs off to document their review and approval. Sign-off by the COR acknowledges that the AOC received the goods and services provided. Invoices related to goods or services for a construction contract require a second level of approval. The COR's supervisor (or an assigned alternate) serves as the second level of approval.

After the COR approves an invoice in IPP, the OCFO reviews the invoice in FMS. The OCFO validates the invoice details, which should include the amount, period of

⁴ An undelivered obligation is also considered an unliquidated obligation. AOC Order 30-1. 2015. Funds Control Administration, Section E – Joint Reviews of Undelivered Orders.

performance, contract line-item number and amount per accounting line. If any discrepancies are identified, the OCFO reviewer contacts the COR for clarification. If discrepancies continue, the OCFO reviewer will forward the invoice to the Contracting Officer (CO) for resolution. If an invoice is rejected, IPP will automatically notify the vendor of the rejection and require that the invoice be resubmitted.

Upon OCFO approval, the invoice moves to a disbursement table where the amounts are sent to the Treasury for payment.

Unliquidated Obligation Reviews

The Jurisdiction Account Holder (JAH) (usually the Jurisdiction Head or Division Chief) or designee from each jurisdiction⁵ completes a quarterly review of unliquidated and/or dormant obligations,⁶ referred to as the QFR. The Business Financial Analyst (BFA) or assigned point of contact for this task downloads the obligations from the QFR SharePoint application onto a spreadsheet and reviews each transaction to determine if the obligations are accurate and valid. As part of the review process, the BFA or assigned point of contact for this process works with the designated CORs to identify obligations that should be de-obligated or to determine if a contract modification is required.

Upon completion of each quarterly review by the JAH, the Jurisdiction Head certifies that the review has been completed and submits the QFR report to the OCFO.

Review of Internal Controls

During our initial planning and fieldwork, we reviewed the AOC's internal control plan and did not identify any internal controls significant to the audit objective. We did, however, identify a deficiency.

We determined that there is a deficiency in the AOC's internal control plan related to the QFR process. The QFR process was intended by AOC to identify inaccurate payments and assess the effectiveness of controls over obligation and payment processes. However, we noted that controls over the monitoring of improper payments processed by the AOC needed improvements. Specifically, the QFR process was not consistent with the PIIA and OMB Circular A-123, Appendix C (OMB Memorandum M-21-19), to reduce improper payments.

Criteria

We used the following criteria to assess the AOC's internal control and risk assessment program's internal control plan to monitor payment accuracy:

⁵ The AOC is organized around the Office of the Architect, a C-suite of executives and other offices, which together provide directed assistance to the agency's jurisdictions. The AOC jurisdictions, listed in the Background section, are the front-line service providers to Congress and the Supreme Court.

⁶ Dormant obligations are unliquidated obligations with no activity for over 180 days.

According to the PIIA:

S. 375—3-2: The head of each executive agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments.

S. 375—5: The head of the relevant executive agency shall produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made under the program or activity.

S. 375—6: With respect to improper payments identified in a recovery audit, the head of the executive agency shall provide with the estimate required under subsection (c) a report on all actions the executive agency is taking to recover the improper payments.

According to OMB Circular A-123's Appendix C (OMB Memorandum M-21-19):

II Phases of Assessments, A. Phase 1: Identify Susceptible Programs and Activities with an IP Risk Assessment

Agencies should assess all programs with annual outlays greater than \$10,000,000 for improper payment risk at least once every three years. The purpose of an improper payment risk assessment is to determine whether the total annual improper payments plus the unknown payments for a program are collectively likely to be above or below the statutory threshold⁷ for the given year.

If the assessment determines that it is likely that the program's improper payments plus the program's unknown payments are above the statutory threshold then, the following year the program should produce a statistically valid estimate of the program's improper payments and unknown payment. If the improper payment risk assessment demonstrates that the program is not likely to make improper payments and unknown payments above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another improper payment risk assessment in three years.

1. Structure of an Improper Payment Risk Assessment

Improper payment risk assessments may be qualitative or quantitative in nature. The agency should develop an improper payment risk assessment methodology that is

⁷ Per OMB Circular A-123 (M-21-19), Phases of Assessments, C. Moving Between Phases, 1. Statutory Threshold and Phase Determination, the threshold is \$10,000,000 and 1.5 percent of the program's total annual outlays or above \$100,000,000 regardless of the associated percentage of the program's total annual outlays.

appropriate to ensure that the result of the improper payment risk assessment reasonably supports whether the program is or is not susceptible to significant improper payments (i.e. likely to have improper payments plus unknown payments that are above or below the statutory threshold).

Appendix B includes a detailed listing of the references to PIIA and OMB-Circular A-123, Appendix C, and additional criteria included in the U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (the Green Book).

AUDIT RESULTS

The AOC's internal control and risk assessment program includes an internal control plan, which is used to monitor the agency's payment accuracy. We assessed the AOC's internal control plan and determined that the AOC had internal controls to mitigate risks related to the processing of improper payments during origination (initial contractual setup and payment). However, we found the plan did not align with the federal guidance, prescribed by PIIA and OMB Circular A-123, Appendix C (OMB Memorandum M-21-19), for assessing risks of significant improper payments and evaluating payment accuracy after payment processing. Specifically, the AOC did not have procedures to assess risks and monitor payment accuracy in its programs and activities.

To assess the effectiveness of the AOC's internal control plan over payments to vendors, we conducted staff interviews, process walkthroughs and detailed payment testing. We tested a sample of 51 vendor payments valued at \$48.9 million from the total FY 2021 vendor payment population of \$456 million. While we found no instances of payment control deficiencies, improper payments or payments to ineligible recipients, the AOC internal control plan did not require the agency to assess its programs and activities for susceptibility to significant improper payments. According to the AOC, the monthly and QFRs were used to identify inaccurate payments and determine the effectiveness of controls over obligation and payment processes. We determined that the QFRs only assessed the validity of the AOC's unliquidated and/or dormant obligations. We did not identify any processes that assessed risks of significant improper payments or to monitor payment accuracy within its programs and activities.

As mentioned, the AOC made approximately \$456 million in vendor payments in FY 2021. In accordance with federal guidance, any program or activity with identified annual improper payments that exceed both 1.5 percent of program payments and \$10 million is considered significant.⁸ The AOC had not incorporated an assessment or review of all programs and activities to identify those that were susceptible to significant improper payments, which is the initial step to assess and monitor for payment accuracy.

We made three recommendations (refer to the Recommendations section) to assist the AOC in aligning with federal guidance to assess the risk of significant improper payments and monitor payment accuracy within its programs and activities.

⁸ Per Circular A-123, Appendix C (M-21-19), VIII. Appendix 1A: Definitions for Purposes of this Guidance, significant improper payments are annual improper payments and unknown payments in the program exceeding both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the FY reported.

Finding

AOC's Internal Control Plan Lacked Procedures to Assess and Monitor Payment Accuracy

The AOC's internal control plan lacked procedures to assess the risk of significant improper payments and monitor payment accuracy within its programs and activities. While the AOC had internal controls in place to prevent the improper processing of payments at origination, the AOC did not have a process to assess risks of significant improper payment and to monitor payment accuracy consistent with federal guidance or as described in AOC's FY 2021 PAR.

In accordance with OMB Circular A-123 (OMB Memorandum M-21-19), Appendix C definition "... the term improper payments includes; any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except those payments authorized by law; and any payment that was not authorized by law; and any payment that does not account for credit for applicable discounts." The PIIA instructs Executive agencies "to take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments" within its programs and activities. The PIIA further states that agencies should conduct annual risk assessments for all programs and activities in which the level of risk is unknown until the risk level is determined and the baseline estimates are established (as applicable).

As a legislative agency, the AOC is not required to follow the PIIA or OMB Circular A-123, Appendix C (OMB Memorandum M-21-19); however, AOC referenced the regulation and OMB Circular within its guidance indicated in the FY 2021 PAR. For the AOC to better align with the federal regulation and its own guidance, the AOC should consider instituting a process to monitor payment accuracy. At the conclusion of FY 2021, the AOC had not developed or conducted any type of assessment or review to identify programs and activities susceptible to significant improper payments. An assessment is the initial step to evaluate and monitor for payment accuracy. If the assessment identifies programs and/or activities susceptible to significant improper payment, then the AOC should perform testing to estimate the cost of improper payments, and design and implement a recoverability plan.

In FY 2021, the AOC processed approximately \$456 million in vendor payments. In accordance with federal guidance, any program or activity with identified annual improper payments that exceed both 1.5 percent of program outlays and \$10 million are considered significant. Without conducting an assessment, the AOC is unable to evaluate the risk of significant improper payments in its

programs and activities. Consequently, the AOC's risk for improper payments is unknown.

Conclusion

In conclusion, we assessed the AOC's internal control and risk assessment program's internal control plan to monitor payment accuracy. We found that the internal control plan had internal controls to mitigate risks related to the processing of improper payments during origination (initial contractual setup and payment); however, the plan did not align with federal guidance for assessing the risk of significant improper payments and monitoring payment accuracy. Per the transmittal letter of OMB Circular A-123, Appendix C (OMB Memorandum M-21-19) "...this guidance aims to ensure that federal agencies focus on identifying, assessing, prioritizing and responding to payment integrity risks to prevent improper payments in the most appropriate manner." In FY 2021, the AOC made approximately \$456 million in vendor payments. Although not required, the AOC had not developed a process to assess the risk of significant improper payments and monitor payment accuracy in its programs and activities.

Recommendations

Recommendation 1

We recommend the Architect of the Capito (AOC) management develop a process that will assess and monitor payment accuracy in its program and activities:

1. The process should include procedures to identify and assess all programs and activities that are susceptible to significant improper payments annually (max triennially).
2. For programs and activities identified as susceptible to significant improper payments, the AOC should consider the following procedures using the Office of Management and Budget guidance:
 - i. Perform testing to estimate the cost of improper payments in the program;
 - ii. Implement a plan to reduce erroneous payments;
 - iii. Report estimates of the annual amount of improper payments in programs and activities and progress toward reducing them within the Performance and Accountability Report.

Recommendation 1 – AOC Comment

We concur. The Office of the Chief Financial Officer will update its enterprise risk assessment process performed in accordance with our Enterprise Risk Management program to assess and monitor payment accuracy in its program and activities. We expect

to implement the updates to our enterprise risk assessment process by the end of the second quarter of FY 2024.

Recommendation 1 – OIG Comment

We recognize the AOC’s concurrence with the recommendation. The AOC will update its enterprise risk assessment process to assess and monitor payment accuracy in its program and activities. The AOC’s actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open.

Recommendation 2

We recommend Architect of the Capitol (AOC) management execute the process that assesses and monitors payment accuracy in its program and activities every one to three years.

Recommendation 2 – AOC Comment

We concur. The Office of the Chief Financial Officer will execute our updated enterprise risk assessment process to assess and monitor payment accuracy in its program and activities every one to three years.

Recommendation 2 – OIG Comment

We recognize the AOC’s concurrence with the recommendation. The AOC will execute its updated enterprise risk assessment process to assess and monitor payment accuracy every one to three years. The AOC’s actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open.

Recommendation 3

We recommend Architect of the Capitol (AOC) management design a recovery plan that is consistent with federal guidance for implementation when improper payments are identified.

Recommendation 3 – AOC Comment

We concur. The Office of the Chief Financial Officer will design a recovery plan that is consistent with federal guidance and that aligns with the AOC’s priorities when improper payments are identified. We expect to implement the design of our recovery plan by the end of the second quarter of FY 2024.

Recommendation 3 – OIG Comment

We recognize the AOC’s concurrence with the recommendation. The AOC will design a recovery plan that is consistent with federal guidance. The AOC’s actions appear to be responsive to the recommendation. Therefore, the recommendation is considered resolved but open.

APPENDIX A

Scope and Methodology

We conducted this performance audit in accordance with GAGAS. These standards require 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 objective.

In addition to GAGAS, we conducted this performance audit in accordance with Consulting Services Standards established by the AICPA. This performance audit did not constitute an audit of the financial statements, or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

This performance audit was conducted from June 2022 through January 2023. The scope of this performance audit was the AOC's FY 2021 payments to vendors and the related internal controls, including monitoring of payment accuracy. To achieve the performance audit objective, we:

- Obtained the relevant AOC policies and procedures related to the processing of vendor payments and monitoring of improper payments, including any policies related to the QFR.
- Performed a walkthrough of the AOC's processes for monitoring and managing payment accuracy, including QFRs.
- Performed a walkthrough of the AOC's processes for processing vendor payments.
- Obtained the AOC's internal control plan for monitoring payment accuracy and compared it to PIIA and OMB Circular A-123, Appendix C (OMB Memorandum M-21-19) requirements.
- Selected a sample of vendor payments and assessed if the payment was 'proper' by performing the following:
 - Agreed the payment amount and vendor to an underlying invoice and contract.
 - Compared the vendor to the approved vendor list and confirmed the vendor was not on the list of debarred companies excluded from federal procurement.
 - Verified that the AOC received the good or service.

Sampling Methodology

To assess the completeness of the population used to select our sample of vendor payments, we reconciled the population amount of \$491,194,005 to the AOC trial balance without exception.⁹ Of the population, we determined that \$35,223,791 were intragovernmental transactions and not subject to the scope of our performance audit. We then utilized statistically selected sample items of the complete population from the FY2021 financial statement audit. The statistical sample selected 53 sample items, of which two were intragovernmental and out of scope for our performance audit. We performed the above procedures over the remaining 51 sample items valued at \$48,888,856 from a population of \$455,970,214.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Use of Technical Assistance

We did not use technical assistance to perform this audit.

Prior Coverage

In the last five years, the GAO and AOC OIG have no prior coverage of the AOC's internal control and risk assessment program to monitor payment accuracy. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted AOC OIG reports can be accessed at <https://oversight.gov>.

⁹ In FY 2021, the 6100.00 population represented the complete population of payments to vendors (payroll and benefits were recorded to 6100.01, accounts payable was recorded to 6100.02, and property, plant and equipment was recorded to 6100.00 with an offsetting entry to 6610.00).

APPENDIX B

Criteria

The GAO Green Book states:

Principle 16, attribute 16.04: “Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity’s operations, performed continually and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.”

Principle 16, attribute 16.09: “Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. Management uses this evaluation to determine the effectiveness of the internal control system. Differences between the results of monitoring activities and the previously established baseline may indicate internal control issues, including undocumented changes in the internal control system or potential internal control deficiencies.”

The PIIA states:

S. 375—2: “The term ‘improper payment’— “

(A) means any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative or other legally applicable requirement; and

(B) includes—

- I. any payment to an ineligible recipient;
- II. any payment for an ineligible good or service;
- III. any duplicate payment;
- IV. any payment for a good or service not received, except for those payments where authorized by law; and
- V. any payment that does not account for credit for applicable discounts.”

S. 375—3-2: “In conducting a review under paragraph (1), the head of each executive agency shall take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments, such as—

- (i) whether the program or activity reviewed is new to the executive agency;
- (ii) the complexity of the program or activity reviewed;

- (iii) the volume of payments made through the program or activity reviewed;
- (iv) whether payments or payment eligibility decisions are made outside of the executive agency, such as by a State or local government;
- (v) recent major changes in program funding, authorities, practices or procedures;
- (vi) the level, experience and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- (vii) significant deficiencies in the audit report of the executive agency or other relevant management findings that might hinder accurate payment certification;
- (viii) similarities to other programs or activities that have reported improper payment estimates or been deemed susceptible to significant improper payments;
- (ix) the accuracy and reliability of improper payment estimates previously reported for the program or activity, or other indicator of potential susceptibility to improper payments identified by the Inspector General of the executive agency, the Government Accountability Office, other audits performed by or on behalf of the Federal, State or local government, disclosures by the executive agency, or any other means;
- (x) whether the program or activity lacks information or data systems to confirm eligibility or provide for other payment integrity needs; and
- (xi) the risk of fraud as assessed by the executive agency under the Standards for Internal Control in the Federal Government published by the Government Accountability Office.”

S. 375—5: “ESTIMATION.—With respect to each program and activity identified under subsection (a)(1), the head of the relevant executive agency shall—

- A. produce a statistically valid estimate, or an estimate that is otherwise appropriate using a methodology approved by the Director of the Office of Management and Budget, of the improper payments made under the program or activity; and
- B. include the estimates described in subparagraph (A) in the accompanying materials to the annual financial statement of the executive agency and as required in applicable guidance of the Office of Management and Budget.”

S. 375—6: “With respect to improper payments identified in a recovery audit, the head of the executive agency shall provide with the estimate required under subsection (c) a report on all actions the executive agency is taking to recover the improper payments, including—

1. a discussion of the methods used by the executive agency to recover improper payments;
2. the amounts recovered, outstanding and determined to not be collectable, including the percent those amounts represent of the total improper payments of the executive agency;
3. if a determination has been made that certain improper payments are not collectable, a justification of that determination;
4. an aging schedule of the amounts outstanding;
5. a summary of how recovered amounts have been disposed of;
6. a discussion of any conditions giving rise to improper payments and how those conditions are being resolved; and
7. if the executive agency has determined under subsection (i) that performing recovery audits for any applicable program or activity is not cost-effective, a justification for that determination.”

S. 375—19-20: “REQUIREMENTS FOR CONTROLS.—The guidelines described in subsection (b) shall include—

1. conducting an evaluation of fraud risks and using a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks;
2. collecting and analyzing data from reporting mechanisms on detected fraud to monitor fraud trends and using that data and information to continuously improve fraud prevention controls; and
3. using the results of monitoring, evaluation, audits and investigations to improve fraud prevention, detection and response.”

OMB Circular A-123’s Appendix C (OMB Memorandum M-21-19, dated March 5, 2021) states:

Phase 1 and Phase 2 – All programs with annual outlays over \$10,000,000 will fall into one of two possible classifications: Phase 1 or Phase 2. Programs that are not likely have an annual amount of improper payments plus an annual unknown payments above the statutory threshold (which is either (1) both 1.5 percent of program outlays and \$10,000,000 of all program payments made during the FY or (2) \$100,000,000) are referred to as being in ‘Phase 1’. If a program in Phase 1 determines that it is likely to annually make improper payments plus unknow payments above the statutory threshold, then the program will move into ‘Phase 2’ the following year. Once in Phase 2 a program

will have additional requirements such as reporting an annual improper payment and unknown payment estimate.

I. Payment Types

For purposes of PIIA implementation, all program outlays will fall in one of three possible payment type categories: proper payment; improper payment; or unknown payment. At a high level, a payment is ‘proper’ if it was made to the right recipient for the right amount, a payment is ‘improper’ if it was made in an incorrect amount or to the wrong recipient, and for instances where an agency is unable to determine whether the payment falls into the proper or improper category that payment should be considered an ‘unknown’ payment...

II. Phases of Assessments

The following ‘Phases’ require varying degrees of effort; each program is responsible for determining which of the ‘Phases’ it falls into. All programs with annual outlays greater than \$10,000,000 will fall into either phase 1 or phase 2.

A. Phase 1: Identify Susceptible Programs and Activities with an Improper Payment Risk Assessment

Agencies should assess all programs with annual outlays greater than \$10,000,000 for improper payment risk at least once every three years. The purpose of an improper payment risk assessment is to determine whether the total annual improper payments PLUS the unknown payments for a program are collectively likely to be above or below the statutory threshold for the given year.

If the assessment determines that it is likely that the program’s improper payments plus the program’s unknown payments are above the statutory threshold then, the following year the program should produce a statistically valid estimate of the programs improper payments and unknown payments. If the improper payment risk assessment demonstrates that the program is not likely to make improper payments and unknown payments above the statutory threshold, then the program will not produce a statistically valid estimate in the following year and instead will conduct another improper payment risk assessment in three years.

1. Structure of an Improper Payment Risk Assessment

Improper payment risk assessments may be qualitative or quantitative in nature. The agency should develop an improper payment risk assessment methodology that is appropriate to ensure that the result of the improper payment risk assessment reasonably supports whether the program is or is not susceptible to significant improper payments (i.e. likely to have improper payments plus unknown payments that are above or below the statutory threshold).

B. Phase 2: Report IP Estimates for Identified Susceptible Programs with a Statistically Valid Sampling and Estimation Methodology Plan (S&EMP)

1. Purpose of an Improper Payment Estimate

The main purpose of an improper payment estimate is to reflect the annual estimated known improper payments made by the program. When developing the S&EMP, errors identified for one payment should never exceed the amount of the payment. It is important to note that the S&EMP should have a mechanism for identifying, accounting for, and estimating the annual unknown payments and the annual improper payments separately.

C. Moving Between Phases

1. Statutory Threshold and Phase Determination

The statutory threshold is determined by statute. Programs are considered to be above the statutory threshold if they are reporting an annual improper payment and unknown payment estimate that is either above \$10,000,000 and 1.5 percent of the program's total annual outlays or above \$100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated improper payment and unknown payment amount represents.

APPENDIX C

Review of Internal Controls

GAGAS requires auditors to obtain an understanding of internal controls that are significant to the audit objectives. Auditors should also assess and document their assessment of the design, implementation and/or operating effectiveness of such internal controls to the extent necessary to address the audit objectives.

Information system controls are often an integral part of an entity's internal control. According to GAGAS, the effectiveness of significant internal controls frequently depends on the effectiveness of information system controls. Thus, when obtaining an understanding of internal controls significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information system controls.

During our initial planning and fieldwork, we reviewed the AOC's internal control plan and did not identify any internal controls as significant to the audit objective. We did, however, identify a deficiency in the AOC's internal control plan.

APPENDIX D

NOTIFICATION LETTER




Office of Inspector General
Fairchild Bldg.
499 S. Capitol St., SW, Suite 518
Washington, D.C. 20515
202.593.1948
www.aoc.gov

United States Government
MEMORANDUM

DATE: June 13, 2022

TO: J. Brett Blanton
Architect of the Capitol

FROM: Christopher P. Failla, CIG 
Inspector General

SUBJECT: Announcement Memorandum for the Audit of Architect of the Capitol's (AOC's)
Internal Control Plan for Payment Accuracy (2022-AUD-006-A)

This memorandum serves as notification that the Office of Inspector General is working with the independent public accounting firm, KPMG, LLP, to initiate an audit of the AOC's internal control plan for payment accuracy. The objective of the audit is to assess the AOC's Internal Control and Risk Assessment program's internal control plan in place to monitor payment accuracy. Specifically, the audit will assess the effectiveness of the AOC's internal control plan for over payments to vendors for construction efforts, professional services and goods procured during normal operations.

We will contact your office to schedule an entrance conference in the next few weeks. If you have any questions, please contact Paul Braxton, Auditor, at Paul.Braxton@aoc.gov.

Distribution List:

Peter Bahm, Chief of Staff
Mary Jean Pajak, Deputy Chief of Staff
Jonathan Kraft, Chief Financial Officer
Curtis McNeil, Risk Management Officer
Jason Baltimore, General Counsel

APPENDIX E

Management Comments




Architect of the Capitol
U.S. Capitol, Room SB-16
Washington, DC 20515
202.228.1793
www.aoc.gov

United States Government

MEMORANDUM

DATE: March 30, 2023

TO: Christopher P. Failla
Inspector General

FROM: Chere Rexroat, 
Acting Architect of the Capitol

SUBJECT: Audit of Architect of the Capitol's (AOC's) Internal Control Plan Lacked Procedures to Assess and Monitor Payment Accuracy (Project No. 2022-AUD-006-A)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) official draft of the subject report. The AOC provides the following response:

Recommendation 1

We recommend AOC management develop a process that will assess and monitor payment accuracy in its program and activities:

1. The process should include procedures to identify and assess all programs and activities that are susceptible to significant improper payments annually (max triennially).
2. For programs and activities identified as susceptible to significant improper payments, the AOC should consider the following procedures using the Office of Management and Budget guidance:
 - i. Perform testing to estimate the cost of improper payments in the program;
 - ii. Implement a plan to reduce erroneous payments;
 - iii. Report estimates of the annual amount of improper payments in programs and activities and progress toward reducing them within the Performance and Accountability Report.

AOC Response

We concur. The OCFO will update its enterprise risk assessment process performed in accordance with our Enterprise Risk Management (ERM) program to assess and monitor payment accuracy in its program and activities. We expect to implement the updates to our enterprise risk assessment process by the end of second quarter Fiscal Year (FY) 2024.

Recommendation 2

Once developed, we recommend AOC management execute the process that assesses and monitors payment accuracy in its program and activities every one to three years.

AOC Response

We concur. The OCFO will execute our updated enterprise risk assessment process to assess and monitor payment accuracy in its program and activities every one to three years.

Recommendation 3

We recommend AOC management design a recovery plan that is consistent with federal guidance for implementation when improper payments are identified.

AOC Response

We concur. The OCFO will design a recovery plan that is consistent with federal guidance and that aligns with the AOC's priorities when improper payments are identified. We expect to implement the design of our recovery plan by the end of second quarter FY 2024.

Doc. No. 230317-04-01

ACRONYMS AND ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AOC	Architect of the Capitol
BFA	Budget Financial Analyst
CO	Contracting Officer
COR	Contracting Officer’s Representative
FMS	Financial Management System
Federal Guidance	Payment Integrity Information Act of 2019 and Office of Management and Budget Circular A-123, Appendix C
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IPP	Invoice Processing Platform
JAH	Jurisdiction Account Holder
KPMG	KPMG, LLP
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PIIA	Payment Integrity Information Act of 2019
QFR	Quarterly Financial Reviews
S&EMP	Sampling and Estimation Methodology Plan
Treasury	U.S. Department of the Treasury



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