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 2016 "Agency Financial Report"

Report No.: 2017-FIN-036

May 2017

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INSPECTOR GENERAL
U.S.DEPARTMENT OF THE INTERIOR

Memorandum

MAY 15 2017

To: Secretary Zinke

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 2016 "Agency Financial Report"
Report No. 2017-FIN-036

In accordance with guidance from the Office of Management and Budget (OMB), we reviewed the "Summary of Improper Payments" section in the U.S. Department of the Interior's (DOI) fiscal year (FY) 2016 "Agency Financial Report" (AFR). Our objective was to determine whether DOI met the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and accurately and completely reported on improper payments in its FY 2016 AFR and accompanying materials. The attachment provides our scope and methodology.

We found that DOI complied with the IPERA reporting requirements, but we identified flaws in the application of the quantitative portion of DOI's IPERA risk assessment process. We make two recommendations that, if implemented, will strengthen DOI's risk assessment process.

Background

IPERA, which became law on July 22, 2010, amended the Improper Payments Information Act of 2002 (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 Federal agency to follow 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 materials accompanying its annual financial statements. The agency then prepares a report on the actions it has taken to reduce improper payments for programs or activities that have significant improper payments. The report must describe the causes of the improper payments and include a corrective action plan.

In order to identify programs and activities susceptible to fraud, OMB Memorandum M-15-02 requires agencies to institute a systematic method of reviewing all programs and activities and identify those susceptible to significant improper payments. OMB requires agencies to at a minimum assess risk against nine factors that are likely to contribute to improper payments. DOI performed a 3-year risk assessment in FY 2016 on 89 programs.

OMB Memorandum M-15-02 also requires that each agency's Inspector General 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.

Results of Inspection

We found that although DOI technically complied with IPERA reporting requirements for FY 2016, as outlined in OMB Memorandum M-15-02 (see Figure 1), DOI did not follow its own methodology requiring the calculation of improper payment estimates by program but instead used the Hurricane Sandy rate of 0.41 percent across all programs.

IPERA Requirement	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.	YES
The agency published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.	YES
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.

Although we concluded that DOI technically complied with IPERA requirements, we identified substantial issues with DOI's risk assessment process and conclusions. DOI conducted a 3-year risk assessment on 89 programs for FY 2016 using the same improper payment rate percentage for all 89 programs and did not comply with its own risk assessment guidance (the Office of Financial Management (PFM) Risk Assessment Guidance, FMM-2016-013).

OMB Memorandum M-15-02, Appendix C, Part I, A.9.b, regarding a systematic method for risk assessments, states: "All agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or a qualitative method (e.g., a risk-assessment questionnaire)." The section then outlines nine risk factors likely to contribute to improper payments that agencies should take into account regardless of whether quantitative or qualitative assessment is used. Furthermore, FMM-2016-013, Part 3.3, requires bureaus and offices to develop estimates of the amount of improper payments by program.

In its 3-year risk assessment, DOI applied the FY 2016 estimated Hurricane Sandy disaster relief program improper payment rate of 0.41 percent to all 89 DOI programs as part of the quantitative portion of its risk assessments and disregarded any improper payment estimates developed by the bureaus and offices for their respective programs. DOI also applied a qualitative test of nine risk-related factors (as required by OMB Memorandum M-15-02) to all 89 programs. DOI then applied a weighted average of the quantitative and qualitative factor ratings, with the quantitative rating receiving a 35 percent weight and the qualitative rating receiving a 65 percent weight, to determine overall risk assessment rating by program.

Applying one improper payment rate percentage to all 89 programs is a flawed approach. It is unreasonable to assign the same improper payment rate percentage to 89 programs from different bureaus with different processes, lifecycles, payment volumes, inherent risks, etc. By applying the same rate to every program, there is a risk that one or more programs may inappropriately receive a risk rating below the "high" risk threshold that would require DOI to report an improper payment rate in its FY 2016 AFR. We determined that had DOI used only the qualitative factors prescribed by OMB, 2 of the 89 programs assessed for risk would have met the high risk threshold and therefore would have required DOI to calculate and report a statistically valid estimated improper payment rate in the FY 2016 AFR.

Because DOI did not follow its own internal methodology for risk assessments in FMM-2016-013 and develop a separate improper payment rate for each program to satisfy the quantitative method, the risk assessment analysis for all 89 programs may have resulted in certain programs not appropriately reporting an improper payment error rate in the FY 2016 AFR.

Recommendations

We recommend that DOI:

1. Discontinue its current hybrid quantitative and qualitative approach to program risk assessments; and

2. Review and revise current policy to reemphasize the need to develop individual risk assessments by program.

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 recommendations, as well as target dates and title(s) of the official(s) responsible for implementation. Please send your response to aie_reports@doioig.gov.

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 regarding our inspection, please contact me at 202-208-5745.

Attachment

Scope and Methodology

The scope of this inspection was the improper payment information contained in the U.S. Department of the Interior's (DOI) fiscal year (FY) 2016 "Agency Financial Report" (AFR) and the related work DOI performed to support its Improper Payments Elimination and Recovery Act of 2010 (IPERA) reporting related to an improper payment rate on Hurricane Sandy disaster relief, as well as documentation supporting its 3-year risk assessment performed over 89 programs in FY 2016. We conducted this inspection from March through May 2017.

To accomplish our objective, we—

- interviewed Office of Financial Management (PFM) staff;
- reviewed the risk assessment ratings worksheets used for the FY 2016 IPERA reporting;
- reviewed the PFM Risk Assessments Guidance for Improper Payments (FMM-2016-013);
- reviewed the methodology used for the development of the estimated improper payment error rate on Hurricane Sandy reported in the FY 2016 AFR; and
- reviewed OMB Memorandum M-15-02, "Requirements for Effective Estimation and Remediation of 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 and recommendation.

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