

Part 5. Appendices

Improper Payments Information Act Reporting Details

Description of the Risk Assessment Process

Interior's Management Control Guidance for FY 2004 issued November 10, 2003, required managers to conduct risk assessments of all programs meeting OMB's definition of "program" (see *Table 1-22* in Part 1, Compliance with Legal and Regulatory Requirements section) to determine if any programs were risk-susceptible for making significant improper payments. The risk assessments were used to establish risk profiles for all bureau programs. In particular, three programs of the Department were initially thought to have potential for meeting the threshold of significant erroneous payments. This determination was based on prior audit and management control review efforts. The three programs are: (1) Bureau of Indian Affairs (BIA)- Indian Self-Determination and Education Act (PL 93- 638), (2) U.S. Fish and Wildlife Service (FWS) - Federal Aid Program, and (3) the Office of Insular Affairs (OIA) - Financial Assistance Program. The managers of these three programs were required to make a more in-depth risk assessment. *Table 5-1* summarizes these program reviews.

TABLE 5-1

Summary of Programs Reviewed as Potentially High Risk				
Bureau/Program	Annual Outlays (millions)	Major Review Component	High Risk Determination	Planned Enhancements Based on Review
BIA PL 93-638 *	1,725	OMB A-133 and Single Audit Act	Not High Risk	<ul style="list-style-type: none"> Quantify and describe the nature of services to be provided. Describe the award recipient population and method of program delivery. Identify appropriate performance metrics.
FWS Federal Aid (43 & 50 CFR)	466	OMB A-133 and Single Audit Act	Not High Risk	<ul style="list-style-type: none"> Approximately 50% of the States have "pre-audit" reviews. Increased emphasis will be placed on "pre-audit" reviews. Individual grantees determined to be "high risk" will be required to submit invoices for approval prior to drawdowns.
OIA Annual Interior Appropriations	397	OMB A-133 and Single Audit Act	Not High Risk	<p>Developed a financial assistance manual to ensure that funds are properly managed.</p> <p>(See http://www.doi.gov/oia)</p>

* By statute, the Secretary has limited ability to monitor third-party payments made by Tribes and Tribal organizations.

Description of the Departmental Functional Review (DFR) Process:

The Office of Financial Management (PFM) developed a DFR questionnaire based on requirements from Treasury, OMB, and IPFA. Questionnaires were developed for five different subject areas: finance, grants, payroll, time and attendance, and charge cards (for small purchases). Prior to issuance, the questionnaires were reviewed and refined by subject matter experts within the Department. Subject matter experts are employees with direct knowledge and/or hands-on experience in the above identified payment areas. The questionnaires were posted to a secure web site for employee access. PFM obtained a list of employee candidates to complete the questionnaires from the subject area experts. The questionnaires were completed in June 2004. The responses for all of the questionnaires were tabulated using the automated management control assessment tool.

The questionnaire for finance was the most detailed, covering all payment types including travel-related payments. The other four questionnaires were for specific payment types; i.e., grants, payroll, time and attendance, and charge cards. *Table 5-2* provides the number of questionnaires sent and the number of responses received.

As shown, 51% of the candidates responded. Over 85% of the respondents were non-supervisory and non-management personnel. An integrity score of 2.5 or greater indicates that the internal control processes are sufficient. An assessment score below 2.5 indicates a potential weakness. Bureaus are required to re-examine the areas that scored below 2.5 and adjust the processes and/or provide additional training as needed.

The results of the DFRs submitted by the bureau Finance Officers are illustrated in *Figure 5-1*. The diagram compares the collective scores from all the respondents in six payment processing areas assessed: control environment, vendor, travel, grants, charge card, and payroll. Each of the areas scored higher than the standard desirable level of 2.5.

Also examined were four specific payment types by the program offices: grants, charge card, payroll, and time and attendance. Each questionnaire contained three sections: Control Environment, Specific Payment Type – Subject Area Expert, and Miscellaneous Information (this section contained general information about the person responding – e.g., bureau, job series, etc.). Questionnaire responses were anonymous. Results of the scoring for the general control environment are summarized the sections that follow.

Control Environment

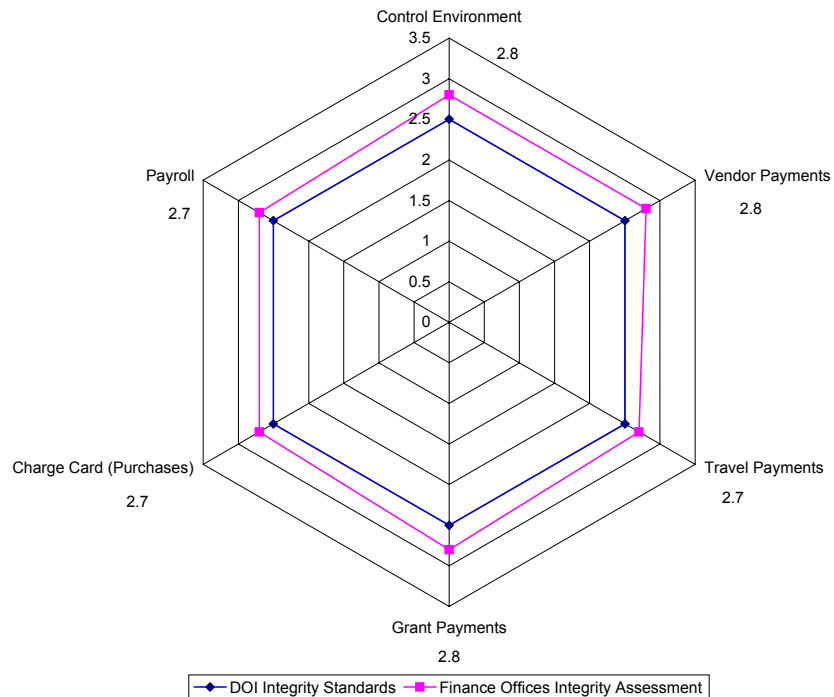
Figure 5-2 shows a comparison of the responses by the various respondents. The lowest integrity scores were for Payroll, and Time and Attendance, which had scores of 2.1 and 2.3, respectively. As a result of the slightly lower scores in payroll and time and attendance, the Department recommended that a specific segment on internal controls be included in future training for these employees. We also recognize the need to continuously perform reviews and assessments of internal control processes as inevitable business process changes occur.

TABLE 5-2

Department-Wide Functional Review Payment Processing			
Payment Types	Surveys Sent	Surveys Received	Percent Received
Finance Offices	11	7	65%
Time and Attendance	83	46	55%
Grants	82	34	41%
Charge Cards	59	35	59%
Payroll Operations	20	9	45%
Total	255	130	51%

FIGURE 5-1

Finance Offices Integrity Scores



Conclusion

Based on the results of the risk assessments and the DFR, the Department believes that sufficient internal control processes exist to minimize the occurrence of improper payments and that processes are in place to perform recovery audits and recover overpayments.

Recovery Audits

Toward the end of FY 2003 the Department selected PRG Schultz to perform recovery audit services. PRG Schultz started working with the Office of the Secretary and performed a pilot effort to set up its program. By the end of FY 2004, all bureaus had issued a task order engaging PRG Schultz to perform recovery auditing services. *Table 5-3* summarizes Interior’s recovery audit activities during FY 2004.

All bureaus, except for the Office of the Secretary, began working with the contractor late in the fiscal year. The figures shown in *Table 5-3* relate primarily to the work that the contractor accomplished for the Office of the Secretary during the pilot effort started in early FY 2004.

The recovery audit contractor and the Department are reviewing payments identified in the “Amount Pending Resolution” column shown in *Table 5-3*. The recovery audit process includes a review step to reasonably confirm that the payments identified through data mining and other techniques are valid overpayments before recovery notices are issued. In such cases, the recovery notices are issued within weeks after discovery and confirmation. This is an ongoing process and will continue until we reach a point where such activities are no longer cost-beneficial.

Since this was Interior’s first year using a recovery auditor, we do not have a sound basis to project expected recoveries. The amounts recovered so far are almost exclusively the result of the pilot program conducted in the Office of the Secretary. The remaining bureaus did not begin recovery audit efforts until late in FY 2004. However, we conservatively estimate that the amount of FY 2005 recoveries will exceed FY 2004 amounts by a factor of ten.

Most of Interior’s funds are single year appropriations. Consequently, most recoveries will be made after the funds have expired and must be returned to the General Fund of the U.S. Treasury. In accordance with applicable laws and regulations, the amounts returned to the U.S. Treasury are reduced by recovery contractor’s fees and program administration costs. As a function of the contractor’s efforts, we will be advised of the areas where our payment control processes can be strengthened. As we gain additional experience in this effort, we will be able to formulate meaningful corrective actions. At this time, however, it is too early to have a clear understanding of the major causes. These causes should become clear as a result of continuing and expanding recovery audit efforts in FY 2005.

FIGURE 5-2

Comparisons of Control Environment

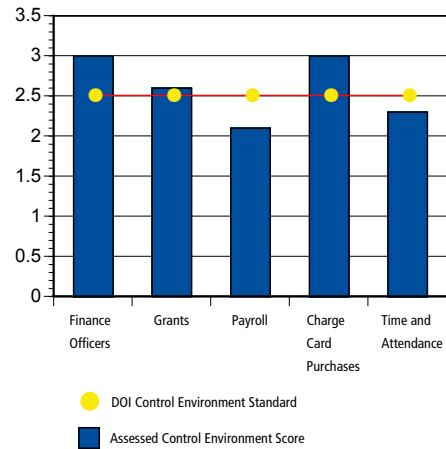


TABLE 5-3

FY 2004 Recovery Audit Activities							
Amount of Payment Errors	Amount Deemed Not Recoverable	Amount Recovered	Amount Pending Resolution	Found by Internal Agency	Found by Recovery Auditor	Agency Costs	Amount Earned by Contractor
\$231,188	None	\$39,875	\$191,313	Not tracked	\$39,875	Not tracked but very minimal	\$7,975