



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, D.C. 20240

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## Memorandum

To: Department Management Control Coordinators

From: Carol L. Sampson *Carol L. Sampson*  
Associate Director, Financial Policy and Operations  
Office of Financial Management (PFM)

Subject: Risk Assessments for Improper Payments - FY 2005

In accordance with the Improper Payments Information Act (IPIA) of 2002 (PL 107-300), Interior performed risk assessments on all of its programs in FY 2004 to determine if any were a "high risk" of making improper (erroneous<sup>1</sup>) payments. After this review, Interior was able to determine that none of its programs met or exceeded the threshold set by the Office of Management and Budget (OMB). We have been informed by OMB that in FY 2005 it is going to focus on fifteen agencies that reported the highest amounts of improper payments in FY 2004.

The good news is that Interior is not one of those fifteen agencies! However, to fulfill the requirements of IPIA, Interior still has the responsibility to review our programs so that we can reasonably assure that the controls in place will limit our exposure to making improper payments and in the process, identify areas where we can improve payment performance. In order to accomplish this for now and the foreseeable future, we will need to review our programs on periodic basis to reassess the attendant risks.

In FY 2005, Bureaus are requested to reassess programs exceeding \$100 million in annual outlays. Attachment 1 lists the programs to be reviewed. The number of programs requiring risk assessments this year will be reduced from over sixty programs to twenty-four. Additionally, Bureaus will not be required to perform a Department Functional Review by payment type this year.

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<sup>1</sup>Improper Payment - means any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. Improper amounts are overpayments and under payments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service. Improper payments are also duplicate payments, payments for services not received, late payment interest not earned and payments that do not take credit for appropriate discounts. The term "improper payment" and "erroneous payment" have the same meaning for these purposes.

The overarching goals for the assessments in FY 2005 are the same as last year, that is, to identify and carefully consider the risks of making improper payments for the programs reviewed and remediate where warranted. Since these are "reassessments," the reviews should determine if program operating conditions have changed such that they may now pose a high risk of allowing improper payments to occur. If so, then a more precise estimate of improper payment levels must be made to determine if the amounts meet or exceed OMB's threshold (see Attachment 2).

Last year, OMB prescribed a four step process to assess the risk of making improper payments and estimating the amounts involved to determine their significance. The steps have been modified slightly to accommodate our FY 2005 assessment process and this information is also included in Attachment 2.

The Office of Financial Management (PFM) requires a copy of the Risk Assessment Worksheet for any program rated as a "high risk" of being susceptible of making improper payments **by June 30, 2005**. If none of the programs reviewed are determined to be "high risk," a negative report is to be submitted to PFM by your bureau management control official (or higher level) on or before the stated due date. Documentation supporting your assessments and conclusions must be retained in the bureau.

Should you have questions or require additional information regarding this request, please contact Gordon Horwitz on (202) 208-7317.

#### Attachments

cc: Deputy Assistant Secretary, Business Management and Wildland Fire  
Bureau Chief Financial Officers

Programs Required to Perform Risk Assessments in FY 2005

	<b>Estimated FY 2005 Outlays</b>
<b>US Geological Survey</b>	
Survey, Investigations, and Research	897,000,000
<b>National Park Service</b>	
Operation of the National Park Service	1,682,000,000
Construction and Major Maintenance	476,000,000
Land Acquisition and State Assistance	182,000,000
Recreation Fee Permanent Appropriations	126,000,000
Other Permanent Appropriations	115,000,000
<b>Office of Surface Mining</b>	
Regulation and Technology	109,000,000
Abandoned Mine Reclamation Fund	252,000,000
<b>Office of Insular Affairs</b>	
Compact of Free Association	216,000,000
Payments to the US Territories, Fiscal Assistance	110,000,000
<b>Minerals Management Service</b>	
Royalty and Offshore Minerals Management	273,000,000
Mineral Leasing and Associated Payments	1,124,000,000
Interior Franchise Fund	2,550,000,000
<b>Fish and Wildlife Service</b>	
Resource management	1,078,000,000
Federal aid in wildlife restoration	226,000,000
Cooperative endangered species conservation fund	115,000,000
Federal aid in Sport fish restoration	351,000,000
<b>Bureau of Indian Affairs</b>	
Operation of Indian Programs	2,162,000,000
Construction	362,000,000
<b>Bureau of Reclamation</b>	
Water and Related Resources	1,027,000,000
<b>Bureau of Land Management</b>	
Management of Land and Resources	876,000,000
Oregon and California Grant Lands	113,000,000
Fire Management	713,000,000
<b>Office of the Secretary</b>	
Payment in Lieu of Taxes	216,000,000

Four Step Risk Assessment Process:

Step 1: Review all programs exceeding \$100 million in annual outlays, and identify those which are susceptible to significant improper payments. Significant improper payments are defined by OMB as annual improper payments in the program exceeding both 2.5 % of program payments and \$10 million.

Step 2: For the programs determined to be susceptible to significant improper payments, perform a statistically valid estimate of the annual amount of improper payments in programs and activities.

Step 3: For the programs determined to be susceptible to significant improper payments, prepare and implement a plan to reduce improper payments.

Step 4: For the programs determined to be susceptible to significant improper payments, report estimates of the annual amount of improper payments in these programs and activities and progress in reducing them in annual Performance and Accountability Reports.

In performing Step 1, managers or evaluators should focus on internal control processes and the inherent risks of each program. Listed below are some of the key factors to be considered when performing assessments. The key factors provided below are neither intended to be all-inclusive nor apply to all programs/activities within a bureau. Some of the factors are subjective in nature and must rely on the manager's judgment and experience in the program assessed. The Risk Rating Worksheet (Attachment 3) is to be completed for each program reviewed. It is each Bureau's responsibility to prepare a Summary Risk Rating Sheet Worksheet for Programs that have multiple field offices that would require separate inputs related to the overall program's assessment. It is very important to retain the risk assessment worksheets for all programs reviewed (including those determined to be medium or low risk). This documentation should be retained by the bureau's management control official to be made available for audit or other review should that be necessary.

**Risk Identification**

- 1. Does management identify risk factors using various methodologies as appropriate?**
  - A. Are qualitative and quantitative methods used to identify improper payments and determine relative risk rankings on a scheduled and periodic basis?
  - B. Have the risk of improper payments been identified, ranked, analyzed, mitigated, and communicated to appropriate staff?
  - C. Has the topic of improper payments been discussed at senior-level management meetings?
  - D. Have improper payments been identified as a result of findings from audits, evaluations, or other assessments?

**2. Do adequate mechanisms exist to identify the risk of improper payments arising from external factors?**

- A. Technological advances?
- B. Changing expectations/requirements of Congress or other regulatory bodies?
- C. Possible natural catastrophes, criminal or terrorist actions?
- D. Business or economic changes?
- E. Major suppliers or contractors?

**3. Do adequate mechanisms exist to identify the risk of improper payments arising from internal factors?**

- A. Recent downsizing or reorganization of bureau operations or personnel?
- B. Business process re-engineering or redesign of operating processes?
- C. Disruption of information systems and the extent to which backup systems are available?
- D. Decentralized program operations?
- E. Lack of qualified personnel or the extent to which they have been trained?
- F. Heavy reliance on contractors or other sources (such as volunteers) to perform critical agency operations?
- G. Unusual employee access to vulnerable assets?
- H. Human capital-related matters, such as succession planning, retention of key personnel who can affect the ability of the program/activity to function effectively, and the adequacy of compensation programs to keep the program competitive with the private sector for labor?

**4. Does management assess other factors that may contribute to or increase the risk exposure to improper payments?**

- A. Past failures to meet program missions or objectives?
- B. A history of improper program expenditures, violations of funds control, or other statutory noncompliance?
- C. The inherent nature of a program, its significance and/or complexity?

**Risk Analysis**

**1. After identification of the risk of improper payments by program/activity, has management undertaken a thorough analysis of their possible effect?**

- A. Has management established a formal process to analyze improper payments?
- B. Have criteria been established for determining low, medium, and high risks?
- C. Are appropriate levels of management and employees involved in the risk analysis?
- D. Are the improper payments identified and analyzed objectively relative to the corresponding program/activity?
- E. Does the risk analysis include estimating the risk significance?
- F. Does the risk analysis include estimating the likelihood and frequency of occurrence of

- each risk and determining whether it falls into the low, medium, or high-risk category?
- G. Has a determination been made on how best to manage or mitigate the risk, and what specific actions should be taken?

**2. Has an approach for management control over improper payments been developed based on the amount of risk that can be prudently accepted?**

- A. Is the approach designed to keep improper payments within levels judged to be appropriate and does management take responsibility for setting the tolerable risk level?
- B. Are specific control activities decided upon to manage or mitigate specific improper payments bureau-wide and at each activity level, and is their implementation monitored?

## Risk Rating Worksheet - Improper Payments

PROGRAM  
TITLE \_\_\_\_\_

ANNUAL PROGRAM OUTLAYS \$ \_\_\_\_\_

ESTIMATED ANNUAL NUMBER OF PROGRAM PAYMENTS \_\_\_\_\_

ANNUAL ESTIMATED AMOUNT OF IMPROPER PAYMENTS \$ \_\_\_\_\_

% OF ANNUAL NUMBER OF PAYMENTS MADE IMPROPERLY \_\_\_\_\_

RISK RATING:      High \_\_\_\_\_      Medium \_\_\_\_\_      Low \_\_\_\_\_

Use separate sheets of paper as necessary to respond to each of the following:

- 1) PROVIDE THE CRITERIA USED TO DETERMINE THE RISK RATING.
  
- 2) LIST SIGNIFICANT WEAKNESSES.
  
- 3) SUMMARIZE THE RATIONALE/DECISIONS SUPPORTING THIS ASSESSMENT.
  
- 4) PROVIDE THE NAMES AND TITLES OF THE PRIMARY CONTRIBUTORS PREPARING THIS RISK ASSESSMENT.
  
- 5) BUREAU PROGRAM/ACTIVITY CONTACT:  
\_\_\_\_\_

Phone Number: