



OFFICE OF INSPECTOR GENERAL



DEPARTMENT OF THE INTERIOR

RECOVERY OVERSIGHT ADVISORY

A Critical Point Evaluation Product






RECOVERY OVERSIGHT OFFICE
Washington, DC 20240

April 8, 2009

To: Chris Henderson
Department Recovery Act Coordinator

From: Robert A. Knox 
Assistant Inspector General, Recovery Oversight Office

Subject: Recovery Oversight Advisory – Single Audits of Recovery Act Programs (ROO-ROA-MOA-9001-2009)

Congress provided us with funding to oversee and ensure accountability of the \$3 billion appropriated to the Department of the Interior (Department) in the American Recovery and Reinvestment Act (Recovery Act or Act). To help safeguard these taxpayer dollars, we will focus on: preventing fraud, waste, and abuse of recovery and reinvestment dollars; early detection to reduce the impact of such misuse when it does occur; and ensuring transparency in our oversight efforts. In a spirit of collaboration with the Department as it implements the massive programs envisioned under the Act, this advisory provides input into the Department's strategy for ensuring adequate review is given in single audits to programs that receive funds under the Recovery Act and are at higher risk for misuse of funds.

It is our understanding that the Department intends to award over \$1 billion (nearly a third) of the Department's Recovery Act funding through federal assistance awards. Assessing the risk of Recovery Act assistance programs to identify those which may be high-risk will be an important first step for the Department to ensure adequate monitoring and oversight and to address past problems that our office has identified with such oversight.

Issue

Programs funded under the Recovery Act inherently carry greater risk than non-Recovery Act programs due to expedited awarding timeframes, large dollar values, and extensive reporting requirements. OMB is aware of these risks, and issued "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009" on April 3, 2009. Section 5.6 of this guidance states that "Federal agencies will perform a risk analysis of Recovery Act programs and request OMB to designate any high risk programs as Single Audit major programs, i.e., programs which must be tested in a particular year." Section 3.11 of the same guidance requires agencies to develop a risk assessment that considers, at a minimum, several factors listed in the guidance in an effort to identify, prioritize, and mitigate risks that could impede accomplishment of programmatic objectives.

As directed by OMB in its guidance, the Department should continue to use the single audit as one monitoring tool for high-risk Recovery Act federal assistance programs. However, during a single audit, only major programs are subjected to extensive internal control and compliance testing. Historic data demonstrates that Interior programs are less likely to be selected as major programs in single audits of non-tribal and non-insular recipients, especially at

the state-level. This trend results from the smaller dollar value of Interior's programs compared to other agencies' programs. If the past trend continues, the Single Audit becomes a less effective tool for monitoring federal assistance activity because detailed internal control and compliance testing would not be required.

This trend can have a very real impact on the scrutiny Recovery Act programs in the Department receive during a single audit. For example, 23 states receive Federal funds under the Abandoned Mine Land Reclamation (AMLR) Program (CFDA 15.252) each year. At the state level, the AMLR Program expenditures are significantly less than many other Federal programs. For fiscal years 2005, 2006, and 2007, the AMLR Program was tested as a major program in about 14 percent of those 23 states' single audits. In monetary terms, almost \$250 million, or 52 percent, of the total program expenditures over the three fiscal years were not tested in detail in the states' single audits. Abandoned mine land remediation and cleanup is one, among many, project categories slated to receive funding under the Recovery Act.

The Department has an opportunity to ensure that – although its program dollars might be smaller those of other agencies – programs it designates as high risk receive appropriate attention in the single audit. OMB specifically states (Section 5.6) that one tool used to drive accountability for Federal awards under the Recovery Act is the designation of high-risk programs as single audit major programs. To take advantage of this opportunity, the Department must assess the risk of programs under which it plans to make awards and communicate to OMB which programs are high risk. The program could then be subject to more detailed internal control and compliance testing. Such a designation would also be communicated to the public in the Compliance Supplement, OMB's website, Recovery.gov, the Department's Recovery website, and the OIG website, making it more likely that suspicious activity observed by the public would be reported.

We do not require an official response to this advisory, but we will post it on our website (www.doioig.gov) and Recovery.gov. Information contained in this advisory may also be included in our semi-annual reports to Congress. Please feel free to contact me if you have any questions.

cc: Assistant Secretary – Policy, Management and Budget
Director, Office of Acquisition and Property Management
Director, Office of Financial Management
Audit Liaison, Office of the Secretary

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