May 15, 2015

MEMORANDUM FOR: Joel Neimeyer  
Federal Co-Chair

FROM: David Sheppard  
Acting Inspector General


This memorandum provides our final report on the Denali Commission’s reporting on improper payments. We conducted this review to comply with the requirements of the Improper Payments Information Act of 2002 (IPIA)—as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—and Office of Management and Budget (OMB) Circular A-123, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments.”

Our review focused on the Commission’s efforts to conduct the required risk assessments of its programs’ susceptibility to improper payments and its reporting, as required by OMB Circular A-123. Specifically, our objective was to review the accuracy and completeness of the Commission's reporting, as well as agency performance in reducing and recapturing improper payments, if applicable.

Overall, we found that while the Commission’s reporting on improper payments appears accurate, it could be incomplete due to areas omitted from the risk assessment. The Commission did not perform the required risk assessment prior to reporting in the FY 2014 agency financial report. In addition, the assessment that was completed in March 2015 did not include all of the required risk factors, including payments to employees and whether grant payments were made for eligible services.

Within 60 days of the date of this memorandum, we request an action plan that responds to our recommendations.

We are also issuing a copy of this report to the Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Oversight and Government Reform; the Comptroller General of the United States; and the OMB Controller.
We would like to thank the Commission staff and staff from the Treasury Department, Bureau of Fiscal Services, for their cooperation during our review. Please contact me at (206) 220-7970 if you would like to discuss the results of this review.

Attachment
 cc: Denali Commissioners
 Corrine Eilo, Chief Financial Officer, Denali Commission
 Todd Zinser, Inspector General, U.S. Department of Commerce
 Senate Committee on Homeland Security and Governmental Affairs
 House Committee on Oversight and Government Reform
 Comptroller General of the United States
 OMB Controller
Improper Payment Estimates Reported Appear Accurate, but Improvement Is Needed in the Risk Assessment Process
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Introduction

As required by the Office of Management and Budget (OMB) Circular A-123, *Management’s Responsibility for Internal Control*, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments”\(^1\)—which gives government-wide guidance on detecting and preventing improper payments—we initiated this review to determine whether the Commission complied with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

Broadly defined, improper payments are payments the federal government has made for the wrong amount, to the wrong entity, or for the wrong reason.\(^2\) Congress enacted IPIA to encourage agency management to plan and take actions to reduce such payments. It requires federal agencies to (1) identify programs that were susceptible to improper payments, (2) estimate improper payment amounts for such programs, and (3) report these estimates along with actions taken to reduce improper payments for programs with estimates that exceed $10 million. IPERA and IPERIA amended IPIA\(^3\) by expanding on these previous requirements and broadening recovery requirements for overpayments.\(^4\)

The Denali Commission has a shared services agreement with the Treasury Department’s Bureau of Fiscal Services, which includes financial management, human resources, procurement, and travel services. As part of their financial management services, the Bureau of Fiscal Services manages most of the Commission’s payment activities, including purchase card, travel card, payroll, and grant payments.

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\(^1\) Revised by OMB Memorandum M-15-02, October 20, 2014.

\(^2\) According to IPERA, Public Law 111-204, §2(e), an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, and other legally applicable requirements. It includes any payment (1) to an ineligible recipient, (2) for an ineligible good or service, (3) that is duplicate, (4) for a good or service not received, or (5) that does not account for credit for applicable discounts.

\(^3\) Unless otherwise indicated, the term IPIA will denote IPIA, as amended by IPERA and IPERIA, throughout this report.

\(^4\) Beginning in FY 2013, IPERA defines significant improper payments as exceeding (1) 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year or (2) $100 million. IPERIA amended the definition of “payments” to include payments to employees (e.g., salary, locality pay, travel pay, and other payments to federal employees) in risk assessments, and, where appropriate, in improper payments estimates. In addition, IPERIA requires agencies to include all improper payments, regardless of whether the improper payment has been or is being recovered, in the reported improper payment estimate.
Objective, Findings, and Recommendations

Our review focused on the Commission’s efforts to conduct the required risk assessments of its programs’ susceptibility to improper payments and its reporting, as required by OMB Circular A-123. Specifically, our objective was to review the accuracy and completeness of the Commission’s reporting, as well as agency performance in reducing and recapturing improper payments, if applicable.

OMB Circular A-123 instructs OIG to review the agency’s adherence to six requirements for compliance with IPIA. Four of the requirements relate to programs and activities susceptible to significant improper payments. The Commission is responsible for determining whether its programs and activities are susceptible to the risk of significant improper payments. As a result of its consultation with the Treasury Department’s Bureau of Fiscal Services, which handles much of the Commission’s payment activities, the Commission determined that it did not meet the threshold of improper payments that would have required a designation of “susceptible to significant improper payments.” Therefore it generally only needs to conduct a risk assessment every 3 years and report an estimate of the annual amount and rate of improper payments, as well as reduction targets, in the Commission’s annual agency financial report.

In its fiscal year 2014 agency financial report, the Denali Commission reported that the agency had no improper payments. We reviewed the results of the Commission’s actions to detect and prevent improper payments, as well as improper payment data reported, and found that the improper payment estimate reported by the Commission in the annual agency financial report appears accurate but could be incomplete due to payment areas omitted from the risk assessment. We found that the Commission did not perform the required risk assessment prior to reporting in the FY 2014 agency financial report. In addition, the assessment that was completed in March 2015 did not include all of the areas at risk for improper payments, having omitted (a) payments to employees and (b) whether grant payments were made for eligible services.

Improper Payment Estimates Reported Appear Accurate, but Improvement Is Needed in the Risk Assessment Process

To meet the requirements of IPIA and OMB Circular A-123, Appendix C, the Commission reported the required estimate of the annual amount and rate of improper payments in its FY 2014 agency financial report and published the report to the Commission’s website. To determine the estimate of the annual amount of improper payments, the Treasury Department’s Bureau of Fiscal Services continuously tracks improper payment data throughout the year—using routine monitoring procedures such as post-payment audits—and reports the data to the Commission’s Chief Financial Officer monthly, as well as at the end of the fiscal year. Based on these activities, we found that the Commission met the applicable OMB criteria for compliance with IPIA.

Our review of the actions taken by the Commission to comply with IPIA and OMB risk assessment requirements identified that the Commission can further improve its risk assessment process.

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5 OMB Circular A-123, Appendix C, § II(A)(3).
Specifically, we found that the risk assessment was not performed prior to the FY 2014 reporting period, and did not include all of the areas at risk for improper payments.

**Excluded Payments**

IPERIA, signed into law on January 10, 2013, included important changes intended to increase the accuracy of agencies’ improper payment estimates. One key addition under IPERIA to the improper payment estimate framework was the inclusion of payments to employees in the definition of improper payments. Even though OMB’s implementation guidance related to IPERIA was not issued until October 2014, these new requirements under IPERIA went into effect for FY 2014 reporting. Because the Commission’s financial reports were issued on November 7, 2014, and its risk assessment was not performed until March 2015, it should have had time to make the changes to its risk assessment process. However, the Commission’s FY 2014 risk assessment did not include payments to employees, such as salary, locality, and travel pay.

In addition to omitting payments to employees, the Commission’s FY 2014 risk assessment did not include an assessment of whether grant payments were made for eligible services. OMB Guidance for Grants and Agreements, Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” includes federal policies and procedures for managing grants.\(^6\) Payments made for grants must follow the cost principles outlined in the OMB guidance and can only include allowable costs. To be considered an allowable cost, a cost must be consistent with policies and procedures that apply to federally-financed activities, and it must be adequately documented.

Although the Commission’s grant payment practices include a review of reimbursement requests, Commission employees responsible for reviewing and approving these requests have not had sufficient training and experience to determine whether costs are allowable and consistent with federal policies. In addition, the Commission’s employees do not routinely review single audit reports from its grantees. Therefore, when requests for payment are sent from the Commission to the Treasury Department’s Bureau of Fiscal Services, they could include unallowable costs, and payments could therefore be made for ineligible services. The Commission’s FY 2014 risk assessment did not include such factors as determining that grant payments were made for eligible services and ensuring that payments only included allowable costs.

Excluding from a risk assessment such transactions as payments to employees and grant payments made for eligible services means that risks associated with those payments are not considered. In addition, risk assessments lacking consideration of key potential risk areas may lead to inadequate evaluation and mitigation of risks, which could lead to improper payments.

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Recommendations

We recommend that the Commission strengthen its risk assessment process by:

1. performing a risk assessment prior to completing its FY 2017 agency financial report. (Low-risk programs, such as the Denali Commission, are only required to conduct a risk assessment once every 3 years);
2. adding assessment areas to include (a) payments to employees and (b) grant payments made for eligible services, thus assuring consideration of all of OMB’s required risk factors.

Summary of Agency Response and OIG Comments

In its May 13, 2015, response to our draft report, the Denali Commission Federal Co-Chair agreed with both of our recommendations (see appendix B).
Appendix A: Objectives, Scope, and Methodology

Our objectives were to assess whether the Commission complied with all applicable improper payment reporting requirements and evaluate the accuracy and completeness of its reporting. The scope of our review of the Commission’s compliance with IPIA included the Commission’s processes and practices for assessing and identifying programs and activities susceptible to improper payments, along with procedures in place to detect and prevent improper payments during FY 2014.

To meet our objectives, we obtained an understanding of internal controls and practices by

- communicating with officials in the Denali Commission and the Treasury Department’s Bureau of Fiscal Services to gain an understanding of risk assessment and improper payment estimate processes;
- requesting, obtaining, and analyzing documents related to the Commission’s FY 2014 risk assessment and improper payment estimate processes; and
- reviewing the “Improper Payments Report” section in the Commission’s FY 2014 financial report.

We also reviewed the Commission’s compliance with applicable provisions of IPIA and OMB Circular A-123, Appendix C, as amended by OMB Memorandum M-15-02.

We conducted our fieldwork from March 2015 to April 2015 in Anchorage, Alaska. We performed this review under authority of the Inspector General Act of 1978, as amended. This review was conducted in accordance with the Quality Standards for Inspection and Evaluation (January 2012) issued by the Council of the Inspectors General on Integrity and Efficiency.
Appendix B: Agency Response

Memorandum

To: David Sheppard, Acting Inspector General
From: Joel Neimeyer, Federal Co-Chair
Subject: Report on FY2014 Compliance with Improper Payments Requirements
Date: May 13, 2015

This memo is in response to your May 7, 2015 memo including a draft report on the above referenced subject. The following is offered.

Recommendation No. 1: The Commission strengthens its risk assessment process by performing a risk assessment prior to completing its FY2017 agency financial report.

   Agency response: We concur with this recommendation.

Recommendation No. 2: The Commission strengthens its risk assessment process by adding assessment areas to include (a) payments to employees and (b) grant payments made for eligible services, thus assuring consideration of all of OMB’s required risk factors.

   Agency response: We concur with this recommendation.

We thank you and your staff for this report and identifying recommendations on how the agency can better function.

cc: Commissioners  
    Todd Zinser, Inspector General, US Department of Commerce  
    John Whittington, General Counsel, Denali Commission  
    Corrine Eilo, Chief Financial Officer, Denali Commission