

Department of the Interior
Erroneous Payments Plan
for FY 2004

November 26, 2003

A. Background

Since 1995, the Department has used a pre-payment auditor for GBL shipments. Thus all freight invoices are submitted to the auditor for review and audit, before payment is made. With a savings/cost ratio frequently exceeding 10:1 or more, the Department has had an opportunity, first hand, to experience the benefits of using recovery audit services.

The enactment of the Improper Payments Information Act of 2002 (the Act), and the Defense Authorization Act of 2002, have greatly expanded the requirements for federal agencies to identify and reduce the incidence of improper payments involving Federal funds.

To achieve the letter and spirit of the Act's objectives, the Department has structured an aggressive program for FY 2004 consisting of the following elements :

- Risk Assessment of all Programs
- Management Control Review of Current Payment Processes
- Review/Recovery of Historical Payments by Recovery Auditor
- In-Depth Review of Major Programs for "High Risk" Potential

1. Conduct Risk Assessment of All Programs

For FY 2004, the Department has issued its Management Control (FMFIA) guidance requiring bureaus and offices conduct a risk assessment of all programs they administer as part of their annual management control reviews. The guidance includes comprehensive direction on how the improper payment risk assessment is to be conducted; defines what constitutes an improper payment; offers suggestions on how to conduct the risk assessment, and describes how the results should be analyzed, quantified and reported. In accordance with the FY 2004 guidance, the Department each bureau and office will be required to complete their risk assessments by June 30, 2004.

A description of the methodology for conducting the program risk assessments is provided in Appendix A.

2. Management Control Review of Current Payment Processes

To assess the adequacy of existing management controls, to identify vulnerabilities for improper or erroneous payments, and to pinpoint areas where improvement is necessary, a Departmental Functional Review (DFR) of the following payment processes will be conducted by all bureaus and offices in FY 2004:

- Vendor Payments
- Travel Payments
- Grant Payments
- Charge Card (Purchases), and
- Payroll Payments

The Department will use an automated management control assessment approach for this DFR. This assessment approach has proven to be a cost effective tool for evaluating management controls over the last three years.

The DFR questionnaire form is stored on a web site, and selected participants are asked to respond electronically. Survey results are tabulated using software specifically designed for this purpose.

The DFR assessments of payments processes will be completed by July 31, 2004.

3. Review and Recovery of Historical Erroneous Payments

The focus of the risk assessments (Item #1) and payment process reviews (Item #2) is on identifying and strengthening existing management controls in order to eliminate or reduce future improper payments. The objective of this item is to quantify and recover improper vendor payments that may have been made in the past.

The Department hired a recovery audit firm (PRG Schultz) in September, 2003, and is presently conducting a pilot program within the Office of the Secretary. The pilot involves the establishment of procedures regarding access to computerized FFS vendor/payment records, contract files, reporting of improper payments, and the preparation of inquiry letters to vendors. These procedures are intended to serve as a template for the recovery audits in other bureaus and offices. Findings from the pilot program are expected to be reported to the Office of the Secretary by June 30, 2004.

The Department expects to obtain valuable information regarding the causes of the improper payments, so that appropriate actions can be initiated to correct the causes. Additionally, the Department will utilize the results of the audit recovery program to quantify the volume and amounts of historical improper payments within the Department.

4. In-Depth Review of Major Programs for “High Risk” Potential

OMB Guidance (Memorandum M-03-13) prescribes that agencies establish a statistical sampling plan (with 90% confidence interval) for monitoring programs “susceptible to significant erroneous payments.” The guidance further defines these programs as those having:

- an erroneous payment rate of 2.5% or more
- and
- annual erroneous payments of \$10 million or more.

The Department has but a handful of programs large enough to potentially satisfy the above criteria. These include:

- BIA’s Tribal Self Governance (638) Program
- OIA’s Financial Assistance Program (for the Territories)
- FWS’s Federal Aid Program

The Department will work closely with program managers in each of these areas to quantify the volume and magnitude of likely improper payments, in order to determine whether the specified OMB thresholds are met. Conclusions regarding “High Risk” potential will be made by March 31, 2004.