

**OFFICE OF INSPECTOR GENERAL**

**Department of Homeland  
Security's FY 2014 Compliance  
with the Improper Payments  
Elimination and Recovery Act  
of 2010 (Revised)**



Homeland  
Security

**February 22, 2016  
OIG-15-94 (Revised)**



# DHS OIG HIGHLIGHTS

## Department of Homeland Security's FY 2014 Compliance with the *Improper Payments Elimination and Recovery Act of 2010 (Revised)*

February 22, 2016

### Why We Did This Audit

Our objective was to determine whether the Department of Homeland Security (DHS) complied with the *Improper Payments Elimination and Recovery Act of 2010* (IPERA). We also evaluated the accuracy and completeness of DHS' improper payment reporting and DHS' performance in reducing and recapturing improper payments.

### What We Recommend

We recommend that DHS' Risk Management and Assurance Division (RM&A) and Federal Emergency Management Agency (FEMA) strengthen their oversight and review procedures for IPERA risk assessments and improper payment testing. We also recommend that RM&A follows the Office of Management and Budget's requirements to comply with IPERA.

#### For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at [DHS-OIG.OfficePublicAffairs@oig.dhs.gov](mailto:DHS-OIG.OfficePublicAffairs@oig.dhs.gov)

### What We Found

Although DHS met all the reporting requirements of IPERA, it did not meet its annual reduction targets established for each high-risk program as required by OMB. As such, we concluded that DHS did not fully comply with IPERA.

Our retesting also showed that FEMA properly performed IPERA payment testing for three programs.

However, DHS could improve its oversight and review of IPERA risk assessments. DHS' RM&A was delayed in approving the components' risk assessments and sample test plans, which it attributed to staffing shortages. The components began improper payment testing before obtaining RM&A's approval. In addition, neither FEMA nor RM&A noticed FEMA's omission of one program that should have been included in its risk assessments. As a result of our review, however, FEMA did perform a risk assessment of that program.

### DHS Response

DHS concurred with all of the recommendations and has already begun implementing corrective actions.



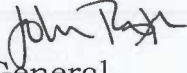
## OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / [www.oig.dhs.gov](http://www.oig.dhs.gov)

February 22, 2016

MEMORANDUM FOR: The Honorable Chip Fulghum  
Deputy Under Secretary for Management and  
Chief Financial Officer

FROM: John Roth   
Inspector General

SUBJECT: Department of Homeland Security's FY 2014  
Compliance with the *Improper Payments Elimination  
and Recovery Act of 2010 (Revised)*

Attached for your information is our final report, Department of Homeland Security's FY 2014 Compliance with the *Improper Payments Elimination and Recovery Act of 2010 (Revised)*. We reissued the report with changes made to the findings and recommendations. Please see the attached errata page for details.

You may call me with any questions at (202) 254-4100, or your staff may contact Mark Bell, Assistant Inspector General for Audits, at (202) 254-4100.

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<b>Page # and Report Section</b>	<b>Prior Language</b>	<b>Updated Language</b>
<p align="center"><b>Highlights Why We Did This Audit</b></p>	<p>Specifically, we evaluated the accuracy and completeness of DHS' improper payment reporting and DHS' performance in reducing and recapturing improper payments.</p>	<p>We also evaluated the accuracy and completeness of DHS' improper payment reporting and DHS' performance in reducing and recapturing improper payments.</p>
<p align="center"><b>Highlights What We Found</b></p>	<p>During fiscal year 2014, DHS complied with the <i>Improper Payments Elimination and Recovery Act of 2010</i>. Our retesting also showed that FEMA properly performed IPERA payment testing for three programs.</p> <p>Although KMPG LLP did not identify any instances of noncompliance with IPERA, DHS could improve its oversight and review of IPERA risk assessments. DHS' RM&amp;A was delayed in approving the components' risk assessments and sample test plans, which it attributed to staffing shortages. The components began improper payment testing before obtaining RM&amp;A's approval. In addition, neither FEMA nor RM&amp;A noticed FEMA's omission of one program that should have been included in its risk assessments. As a result of</p>	<p>Although DHS met all the reporting requirements of IPERA, it did not meet its annual reduction targets established for each high-risk program as required by OMB. As such, we concluded that DHS did not fully comply with IPERA.</p> <p>Our retesting also showed that FEMA properly performed IPERA payment testing for three programs.</p> <p>However, DHS could improve its oversight and review of IPERA risk assessments. DHS' RM&amp;A was delayed in approving the components' risk assessments and sample test plans, which it attributed to staffing shortages. The components began improper payment testing before obtaining RM&amp;A's approval. In addition, neither FEMA nor RM&amp;A noticed FEMA's omission of one program that should have been included in</p>

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	our review, however, FEMA did perform a risk assessment of that program.	its risk assessments. As a result of our review, however, FEMA did perform a risk assessment of that program.
<b>Highlights What We Recommend</b>	<b>What We Recommend</b> We recommend that Risk Management and Assurance Division (RM&A) plan for personnel succession to ensure the Department's compliance with legislative requirements. We also recommend that RM&A and Federal Emergency Management Agency (FEMA) strengthen their oversight and review procedures for IPERA risk assessments and improper payment testing.	<b>What We Recommend</b> We recommend that DHS' Risk Management and Assurance Division (RM&A) and Federal Emergency Management Agency (FEMA) strengthen their oversight and review procedures for IPERA risk assessments and improper payment testing. We also recommend that RM&A follows the Office of Management and Budget's requirements to comply with IPERA.
<b>Highlights DHS Response</b>	DHS concurred with all three recommendations and has already begun implementing corrective actions.	DHS concurred with all of the recommendations and has already begun implementing corrective actions.
<b>Background Page 2</b>	In accordance with OMB's guidance, the Inspector General should review improper payment reporting in the Agency Financial Report (AFR) and any accompanying information to ensure compliance with IPERA. As	This guidance was subsequently updated on October 20, 2014. This modified guidance changes the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of

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	<p>part of that review, the Inspector General may also evaluate the accuracy and completeness of agency reporting and evaluate the agency's efforts to reduce and recover improper payments.</p>	<p>requirements. In accordance with OMB's guidance, the Inspector General should review improper payment reporting in the Agency Financial Report (AFR) and any accompanying information to ensure compliance with IPERA. As part of that review, the Inspector General may also evaluate the accuracy and completeness of agency reporting and evaluate the agency's efforts to reduce and recover improper payments.</p>
<p><b>Results of Audit Page 3</b></p>	<p>We contracted with KPMG LLP (KPMG) to audit DHS to determine whether the Department met IPERA requirements. KPMG did not identify any instances of noncompliance with IPERA. We also determined that the Federal Emergency Management Administration (FEMA) properly performed IPERA payment testing.....</p>	<p>According to OMB guidance, an agency is required to meet six specific requirements. If an agency does not meet one or more of these requirements, it is not compliant with IPERA. DHS did not fully comply with IPERA because it did not meet its annual reduction targets established for each high-risk program.</p> <p>However, we determined that the Federal Emergency Management Administration (FEMA) properly performed IPERA payment testing....</p>
<p><b>Results of Audit Page 3-4</b></p>	<p>KPMG audited DHS to determine whether it met IPERA requirements. KPMG</p>	<p>We reviewed DHS' FY 2014 Agency Financial Report (AFR) to determine whether</p>

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	<p>did not identify any instances of noncompliance. Specifically, for FY 2014, DHS met the following requirements:</p> <ul style="list-style-type: none"> <li>• Published an AFR and accompanying materials required by OMB on the agency website;</li> <li>• Conducted required program-specific risk assessments;</li> <li>• Published improper payment estimates for high-risk programs;</li> <li>• Published programmatic corrective action plans;</li> <li>• Published, and has met, annual reduction targets for programs at risk;</li> <li>• Achieved and reported a gross improper payment rate of less than 10 percent for all programs tested; and</li> <li>• Reported on its efforts to recover improper payments.</li> </ul>	<p>DHS met the following requirements prescribed by IPERA:</p> <ul style="list-style-type: none"> <li>• Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;</li> <li>• Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);</li> <li>• Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);</li> <li>• Published programmatic corrective action plans in the AFR or PAR (if required);</li> <li>• Published, and is meeting,<sup>1</sup> annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required)</li> </ul>

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		<p>and applicable); and</p> <ul style="list-style-type: none"> <li>• Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.</li> </ul> <p>Although the Department remained committed to reducing its improper payments, it did not meet the FY 2014 reduction target rates set for each program. DHS did not meet its annual reduction targets for 5 of 11 programs deemed to be susceptible to improper payments. The 5 programs include:</p> <ul style="list-style-type: none"> <li>• Disaster Relief Program Vendor Payments (FEMA)</li> <li>• Public Assistance (FEMA)</li> <li>• Homeland Security Grant Program (FEMA)</li> <li>• Transportation Security Grant Program (FEMA)</li> <li>• Emergency Food and Shelter Program (FEMA)</li> </ul> <p>The Department sets aggressive reduction target</p>



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		<p>rates for each of its programs deemed to be vulnerable to significant improper payments and remained committed to reducing its improper payments. During FY 2014, DHS demonstrated notable progress in its efforts to strengthen program and payment procedures.</p> <p>Footnote 1: A program meets a reduction target if the improper payment rate for that program in the current year falls within <u>plus or minus 0.1 percentage points</u> of the reduction target set in the previous year's AFR or PAR.</p>
<p align="center"><b>Recommendations Page 7</b></p>	<p align="center">--</p>	<p><b>Recommendation 4:</b></p> <p>The Risk Management and Assurance division follows Office of Management and Budget's (OMB) requirements for agencies not compliant with IPERA as stated in Appendix C of OMB Circular No. A-123. DHS should also focus its resources on corrective actions that will help meet the OMB-approved reduction targets.</p>
<p align="center"><b>Management Response and OIG Analysis Page 8</b></p>	<p>A copy of DHS' response in its entirety is included as appendix A. DHS concurred with all three</p>	<p>DHS' responses dated January 21, 2016, and April 27, 2015, are included as appendix A and appendix B,</p>

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	recommendations and has already begun implementing corrective actions.	respectively. DHS concurred with all four recommendations and has already begun implementing corrective actions.
<b>Management Response and OIG Analysis Page 8</b>	--	<p><u>Management Response to Recommendation #4:</u>  <b>Concur.</b> In January 2016, DHS concurred with the new recommendation and advised that it is in the process of developing corrective action plans to address the programs that were non-compliant.</p> <p><u>OIG Analysis:</u> The recommendation will remain open and unresolved until we have reviewed the corrective action plans.</p> <p>Recommendations 1 through 3 have been closed.</p>
<b>Scope and Methodology Page 9</b>	We conducted this audit between August 2014 and January 2015, pursuant to the <i>Inspector General Act of 1978</i> , as amended, and according to generally accepted government auditing standards.	We conducted this audit between August 2014 and January 2015, and subsequently between December 2015 and January 2016, pursuant to the <i>Inspector General Act of 1978</i> , as amended, and according to generally accepted government auditing standards.
<b>Scope and Methodology</b>	On October 20, 2014, the Office of Management and	On October 20, 2014, the Office of Management and

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<p align="center"><b>Page 9-10</b></p>	<p>Budget (OMB) issued a modified version of Appendix C to Circular A-123, <i>Requirements for Effective Estimation and Remediation of Improper Payments</i>. This modified guidance changes the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. However, we conducted our FY 2014 audit according to the previous version of Appendix C dated April 14, 2011 because the modified version was issued after the FY 2014 IPERA assessment and reporting process had begun. Also, the modified version did not provide any additional requirements that the Department would need to meet for compliance with IPERA.</p> <p>We contracted with KPMG to determine DHS' compliance with IPERA.</p>	<p>Budget (OMB) issued a modified version of Appendix C to Circular A-123, <i>Requirements for Effective Estimation and Remediation of Improper Payments</i>. This modified guidance changes the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements.</p> <p>We reviewed DHS' FY 2014 Agency Financial Report to determine whether DHS met the following requirements prescribed by IPERA:</p> <ul style="list-style-type: none"> <li>• Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;</li> <li>• Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);</li> <li>• Published improper payment estimates for all programs and activities identified as susceptible to</li> </ul>

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		<p>significant improper payments under its risk assessment (if required);</p> <ul style="list-style-type: none"> <li>• Published programmatic corrective action plans in the AFR or PAR (if required);</li> <li>• Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and</li> <li>• Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.</li> </ul>
<b>Appendix A Page 11</b>	Management Comments to the Draft Report	Management Comments to the Revised Report



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### Background

On July 22, 2010, the President signed Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010* (IPERA), which requires agency heads to periodically review all programs and activities administered and identify those that may be susceptible to significant improper payments. IPERA defines an improper payment as one that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. This includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. For each program identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate of the improper payments made by each program and activity. The agency is also required to include those estimates in the materials accompanying the agency's annual financial statement.

On April 14, 2011, the Office of Management and Budget (OMB) issued Circular A-123, *Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments*, revised parts 1 and II, as guidance for agencies to implement the requirements of IPERA. This guidance also describes the responsibilities of Inspectors General in determining their respective agency's compliance with IPERA. This guidance was subsequently updated on October 20, 2014. This modified guidance changes the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. In accordance with OMB's guidance, the Inspector General should review improper payment reporting in the Agency Financial Report (AFR) and any accompanying information to ensure compliance with IPERA. As part of that review, the Inspector General may also evaluate the accuracy and completeness of agency reporting and evaluate the agency's efforts to reduce and recover improper payments.

Among other requirements, an agency must conduct risk assessments and report and publish the results of selected program testing in its AFR to comply with IPERA. It must also achieve and report improper payment rates of less than 10 percent for each program. According to the Department of Homeland Security (DHS) AFR, in fiscal year (FY) 2014, DHS conducted risk assessments for nearly \$63 billion of FY 2013 payments made by 97 DHS programs in which total payments exceeded \$10 million.



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### Results of Audit

According to OMB guidance, an agency is required to meet six specific requirements. If an agency does not meet one or more of these requirements, it is not compliant with IPERA. DHS did not fully comply with IPERA because it did not meet its annual reduction targets established for each high-risk program.

However, we determined that the Federal Emergency Management Administration (FEMA) properly performed IPERA payment testing for three programs we retested—the Emergency Food and Shelter Program, Assistance to Fire Fighters Grants, and the National Flood Insurance Program. In addition, we closed a recommendation to DHS from the FY 2013 IPERA audit. However, DHS could improve its oversight and review of IPERA risk assessments. Specifically, we found:

- Risk Management and Assurance Division (RM&A) was delayed in approving components' risk assessments and sample test plans; the components began improper payment testing before receiving RM&A's approval.
- Neither FEMA nor RM&A noticed that FEMA omitted one program that should have been included in its risk assessments.
- FEMA interviewed the appropriate program officials to conduct program risk assessments, but did not update the list of program officials it provided to the Office of Inspector General (OIG) for FY 2014 risk assessment interviews.

### DHS' Compliance with IPERA

We reviewed DHS' FY 2014 Agency Financial Report (AFR) to determine whether DHS met the following requirements prescribed by IPERA:

- Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- Published programmatic corrective action plans in the AFR or PAR (if required);



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- Published, and is meeting,<sup>1</sup> annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

Although the Department remained committed to reducing its improper payments, it did not meet the FY 2014 reduction target rates set for each program. DHS did not meet its annual reduction targets for 5 of 11 programs deemed to be susceptible to improper payments. The 5 programs include:

- Disaster Relief Program Vendor Payments (FEMA)
- Public Assistance (FEMA)
- Homeland Security Grant Program (FEMA)
- Transportation Security Grant Program (FEMA)
- Emergency Food and Shelter Program (FEMA)

The Department sets aggressive reduction target rates for each of its programs deemed to be vulnerable to significant improper payments and remained committed to reducing its improper payments. During FY 2014, DHS demonstrated notable progress in its efforts to strengthen program and payment procedures.

### **FEMA's IPERA Payment Testing for Three Programs**

We retested three programs that FEMA included in its IPERA payment testing. Our retesting showed that FEMA properly performed FY 2014 IPERA payment testing for the Emergency Food and Shelter Program, Assistance to Firefighters Grants program, and National Flood Insurance Program. Based on improvements noted at other components in FY 2012, as well as FY 2013 IPERA audits, we concentrated our efforts on FEMA because it had the largest number of programs considered high-risk and because it plans to request relief from IPERA testing for these three programs.

To assess FEMA's testing methods and results, we retested a sample of 45 payments for each program. According to the Government Accountability Office's *Financial Audit Manual*, Volume 1 (July 2008), if no deviations are found, a sample size of 45 sufficiently supports the assessment of controls. This sample size also allows auditors to have confidence in the effectiveness of the entities testing controls. We retested the following programs:

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<sup>1</sup> A program meets a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year's AFR or PAR.



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- Emergency Food and Shelter Program, which paid out \$119 million. As defined in the DHS sampling methodology, FEMA tested 344 statistically sampled transactions totaling approximately \$11 million. We retested 45 (approximately \$1.9 million) of the original 344 transactions and found no errors.
- Assistance to Firefighters Grants Program, which paid out \$336 million. As defined in the DHS sampling methodology, FEMA tested 321 statistically sampled transactions totaling approximately \$112 million. We retested 45 (approximately \$18 million) of the original 321 transactions and found no errors.
- National Flood Insurance Program, which paid out \$8.72 billion. As defined in the DHS sampling methodology, FEMA tested 348 statistically sampled transactions totaling approximately \$60 million. We retested 45 (approximately \$8 million) of the original 348 transactions and found no errors.

The results of our retesting are consistent with FEMA's testing results. Therefore, we are reasonably assured that FEMA properly tested these programs and the statistically projected improper error rates of 1.47 percent, 0.10 percent, and 0.05 percent, respectively, are valid.

### **Prior Audit Follow-up**

DHS OIG has issued three prior reports on DHS' compliance with IPERA and the Department's efforts to reduce and recover improper payments. One recommendation from those three reports remained open and resolved. Specifically, in *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, we recommended that RM&A require all components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score. In our FY 2013 report, *Department of Homeland Security's FY 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, we determined that the components had improved their processes to support the conclusions made in their risk assessments. During this fiscal year's audit, we confirmed that FEMA risk assessments included detailed explanations and references to supporting documentation as to how they determined each risk weight and score. As a result, we consider the recommendation from our FY 2012 report closed.

### **Review and Approval of Components' Risk Assessments**

RM&A was delayed in approving components' risk assessments and sample test plans. According to the DHS *Improper Payments Reduction Guidebook*, Version 4.1 (guidebook), RM&A is to review the components' risk assessments and sample test plans and, upon approval, provide statistical samples to the components for improper payment testing. In FY 2014, the components began





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improper payment testing before RM&A formally approved their risk assessments and sample test plans.

RM&A officials said they were behind schedule according to the guidebook's IPERA timeline because of staffing shortages caused by high personnel turnover. This delayed the oversight process and the components' improper payment testing of high-risk programs. Because of these delays, RM&A advised the components to move forward with testing so that the FY 2014 IPERA process, including payment testing, could continue without additional delays. This would also allow RM&A time to adequately review the components' risk assessments and sample test plans.

Although delayed, RM&A did approve the risk assessments and sample test plans from all components except FEMA. RM&A delayed its FEMA approval because it was waiting for OMB to approve an alternative sampling methodology FEMA was using for one of its high-risk programs. Once OMB approved FEMA's alternative methodology, RM&A decided it was not necessary to approve FEMA's risk assessments and sample test plans because FEMA had already forwarded the results of its testing for inclusion in the FY 2014 AFR.

RM&A was also delayed in providing statistical testing samples to all the components. Because FEMA has more high-risk programs requiring improper payment testing than other DHS components, it is important that it receives statistical testing samples as early as possible. Although FEMA received its samples much later than in prior years, which significantly affected its improper payment testing, it was able to complete testing of all high-risk programs. The results of the testing were included in DHS' FY 2014 AFR.

Although DHS was able to complete the FY 2014 IPERA process, we remain concerned that RM&A's staffing issues, including high personnel turnover, could also cause delays in the FY 2015 process. For example, these issues could cause delays in issuing the FY 2015 *Improper Payments Reduction Guidebook*, the key guidance for components. According to RM&A officials, they are currently hiring staff and have filled a key management position.

### **Review and Oversight of FEMA's Risk Assessments**

During the IPERA process, components complete a risk assessment for each program with disbursements exceeding \$10 million in the prior fiscal year. The components then include all program disbursement information and risk assessment results in a risk matrix. FEMA did not perform a risk assessment for one program with payments that exceeded \$10 million, nor was the program listed in FEMA's risk matrix. Neither FEMA's nor RM&A's review and oversight procedures caught the omission. Two Hurricane Sandy-related programs were also missing from FEMA's risk matrix. Considering FEMA's



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large number of high-risk programs, its risk matrix should capture all programs to determine compliance with risk assessment and testing requirements.

As a result of our review, FEMA acknowledged omitting the program with payments exceeding \$10 million and performed a risk assessment of the program. FEMA determined it was low risk and did not require improper payment testing.

FEMA interviewed the appropriate program officials to conduct program risk assessments, but the list of program officials provided to DHS OIG was not updated to identify the appropriate officials for FY 2014 risk assessment interviews. According to the guidebook, components are to identify appropriate personnel for interviews to obtain risk assessment data. FEMA indicated it would update the list of program officials as necessary.

### Recommendations

#### **Recommendation 1:**

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that the Risk Management and Assurance division has adequate personnel succession plans to ensure the Department's compliance with IPERA requirements.

#### **Recommendation 2:**

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that the Risk Management and Assurance division strengthens its oversight and review procedures to ensure components' IPERA risk matrixes include all programs.

#### **Recommendation 3:**

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that FEMA strengthens its preparation, review, and oversight processes to ensure compliance with risk assessment and risk matrix requirements and to ensure that responsible program officials are properly identified.

#### **Recommendation 4:**

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that the Risk Management and Assurance division follows Office of Management and Budget's (OMB) requirements for agencies not compliant with IPERA as stated in Appendix C of OMB Circular No. A-123.



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DHS should also focus its resources on corrective actions that will help meet the OMB-approved reduction targets.

### **Management Response and OIG Analysis**

DHS' responses dated January 21, 2016, and April 27, 2015, are included as appendix A and appendix B, respectively. DHS concurred with all four recommendations and has already begun implementing corrective actions. A summary of DHS' responses and our analysis follows.

Management Response to Recommendation #1: **Concur**. DHS is in the process of hiring additional staff and expects to be fully staffed by the end of FY 2015.

OIG Analysis: We consider DHS' ongoing actions responsive to the recommendation; therefore, this recommendation is resolved. It will remain open until we have reviewed RM&A's staffing levels and succession plans at the end of FY 2015.

Management Response to Recommendation #2: **Concur**. DHS has added additional procedures to the "FY 2015 Improper Payments Reduction Guidebook" to ensure that all components' programs are properly included in the IPERA risk matrixes. An additional supervisory review and tracking matrix has also been developed to ensure all programs are included and reviewed as appropriate.

OIG Analysis: We consider DHS' actions responsive to the recommendation; therefore, this recommendation is resolved and closed.

Management Response to Recommendation #3: **Concur**. FEMA has established additional review procedures to ensure that all programs have been properly reported in the IPERA risk matrix. FEMA has also added an additional procedure to validate the list of the program officials used to obtain risk assessment data.

OIG Analysis: We consider FEMA's actions responsive to the recommendation; therefore, this recommendation is resolved and closed.

Management Response to Recommendation #4: **Concur**. In January 2016, DHS concurred with the new recommendation and advised that it is in the process of developing corrective action plans to address the programs that were non-compliant.

OIG Analysis: The recommendation will remain open and unresolved until we have reviewed the corrective action plans.

Recommendations 1 through 3 have been closed.



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### Scope and Methodology

We conducted this audit between August 2014 and January 2015, and subsequently between December 2015 and January 2016, pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objective.

The scope of the audit included DHS' FY 2014 efforts to comply with IPERA. We focused our audit efforts on FEMA because of: (1) the large number of high-risk programs as compared to the other components; (2) prior year open recommendation relating to FEMA; and (3) FEMA's plan to request relief from IPERA testing for three of its programs.

To understand DHS' requirements under IPERA and DHS policies and procedures to meet those requirements, we obtained and reviewed relevant authorities and guidance and interviewed the officials in DHS' Office of the Chief Financial Officer.

On October 20, 2014, the Office of Management and Budget (OMB) issued a modified version of Appendix C to Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. This modified guidance changes the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements.

We reviewed DHS' FY 2014 Agency Financial Report to determine whether DHS met the following requirements prescribed by IPERA:

- Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- Published programmatic corrective action plans in the AFR or PAR (if required);
- Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and



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- Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

Focusing on FEMA, we obtained and read relevant authorities, guidance, and policies; reviewed FEMA's risk assessment processes, sampling plans, and corrective actions; interviewed relevant program management; and conducted sample payment testing for three FEMA programs. We reviewed contracts, invoices, and other supporting documentation to assess whether proper payment determinations had been made for the following programs: Assistance to Firefighters Grants, Emergency Food and Shelter Program, and National Flood Insurance Program. We also verified the reliability of the payment information for the three FEMA programs tested by reconciling FEMA's program identification template gross disbursement amounts to FEMA's FY 2013 Statement of Budgetary Resources from the Department of Treasury.

Office of Audits major contributors to this report are: Sandra John, Audit Director; John D. Shiffer, Audit Manager; Kendra Loper, Audit Manager; Hope Franklin, Auditor; Elaine Ferguson, Senior Program Analyst; Nancy Pergolizzi, Auditor; Melissa Estrella, Program Analyst; Kelly Herberger, Communications Analyst; and, Maryann Pereira, Independent Referencer.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

**Appendix A**  
**Management Comments to the Revised Report**


U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

January 21, 2016

MEMORANDUM FOR: John Roth  
Inspector General

FROM: Jim H. Crumpacker, CIA, CFE   
Director  
Departmental GAO-OIG Liaison Office

SUBJECT: OIG Draft Report: "Department of Homeland Security's  
FY 2014 Compliance with the Improper Payments  
Elimination and Recovery Act of 2010 (Revised)"  
(Report No. OIG-15-94)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the Office of Inspector General's (OIG's) work to reissue this report and correct an inaccurate conclusion about whether DHS met its annual reduction target established for each high-risk program as required by the Improper Payments Elimination and Recovery Act of 2010.

The reissued report contained one new recommendation with which the Department concurs. Specifically, OIG recommended that the DHS Chief Financial Officer (CFO), ensure that:

**Recommendation 4:** The DHS Risk Management and Assurance Division follows Office of Management and Budget's (OMB) requirements for agencies not compliant with IPERA as stated in Appendix C of OMB Circular No. A-123. DHS should also focus its resources on corrective actions that will meet the OMB-approved reduction targets.

**Response:** Concur. The CFO has directed that the Director of the DHS Risk Management and Assurance Division develop a corrective action plan for the Federal Emergency Management Agency programs listed below.

- Disaster Relief Program Vendor Payments
- Public Assistance Program
- Homeland Security Grant Program
- Transportation Security Grant Program
- Emergency Food and Shelter Program



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This plan will describe the actions needed for each program to become compliant, including:

- Measurable milestones to be accomplished;
- The designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance; and
- The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance.

Once finalized, the plan will be shared with the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and OMB.

Estimated Completion Date: April 30, 2016.

Again, thank you for the opportunity to review and comment on this revised final report. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

**Appendix B**  
**Management Comments to the Draft Report**


U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

April 27, 2015

MEMORANDUM FOR: John Roth  
Inspector General

FROM: Jim H. Crumacker, CIA, CFE  
Director  
Departmental GAO-OIG Liaison Office 

SUBJECT: OIG Draft Report "Department of Homeland Security's  
FY 2014 Compliance with the Improper Payments  
Elimination and Recovery Act of 2010"  
(Project No. 14-040-AUD-MGMT)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) appreciates the Office of Inspector General's (OIG's) work in planning and conducting its review and issuing this report.

The DHS Chief Financial Officer (CFO), currently also the Acting Deputy Under Secretary for Management, is pleased to note for the sixth year in a row, KPMG LLP, the Department's independent auditor, did not find any instances of noncompliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and its predecessor law, the Improper Payments Information Act of 2002. OIG also noted that the Federal Emergency Management Administration (FEMA) properly performed IPERA payment testing for three programs – the Emergency Food and Shelter, Assistance to Fire Fighters Grants, and National Flood Insurance Programs. In addition, OIG was able to close the one remaining open prior-year IPERA-related recommendation from FY 2012 during this year's audit.

The draft report contained three recommendations with which the Department concurs. Specifically, OIG recommended that the DHS CFO ensure that:

**Recommendation 1:** The DHS Risk Management and Assurance Division (RM&A) has adequate personnel succession plans to ensure the Department's compliance with IPERA requirements.





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Department of Homeland Security

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**Response:** Concur. While RM&A experienced significant personnel turnover during FY 2014, it is important to note that all IPERA testing and reporting requirements were successfully completed. New staff was able to issue the “FY 2015 Improper Payments Reduction Guidebook” on January 14, 2015, to the components and to begin the component risk assessment and test plan review process starting in February 2015. RM&A is in the process of hiring additional staff and expects to be fully staffed by the end of FY 2015. Estimated Completion Date: September 30, 2015.

**Recommendation 2:** The Risk Management and Assurance Division strengthens its oversight and review procedures to ensure components’ IPERA risk matrixes include all programs.

**Response:** Concur. DHS RM&A staff has added additional procedures to the “FY 2015 Improper Payments Reduction Guidebook,” to ensure that all Components’ programs are properly included in the IPERA risk matrixes. An additional supervisory review and tracking matrix has also been developed to ensure all programs are included and reviewed as appropriate. A copy of the relevant documentation has been provided to the OIG under separate cover. The DHS CFO requests that OIG consider this recommendation resolved and closed.

**Recommendation 3:** FEMA strengthens its preparation, review, and oversight processes to ensure compliance with risk assessment and risk matrix requirements and to ensure that responsible program officials are properly identified.

**Response:** Concur. FEMA’s CFO has added an additional program review step to FEMA’s IPERA procedures to ensure that all programs have been properly reported in the IPERA risk matrix. FEMA has also added an additional validation step to the IPERA procedure to validate the list of the program officials used to obtain risk assessment data. A copy of the relevant documentation has been provided to the OIG under separate cover. The DHS CFO requests that OIG consider this recommendation resolved and closed.

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



**OFFICE OF INSPECTOR GENERAL**  
Department of Homeland Security

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**Appendix C**  
**Report Distribution**

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