

# Department of Homeland Security **Office of Inspector General**

Department of Homeland Security's FY 2012  
Compliance with the Improper Payments  
Elimination and Recovery Act of 2010





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

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

MAR 12 2013

MEMORANDUM FOR: Stacy Marcott  
Deputy Chief Financial Officer  
Office of Chief Financial Officer

FROM: Anne L. Richards *Anne L. Richards*  
Assistant Inspector General for Audits

SUBJECT: *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*

Attached for your action is our final report, *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*. We incorporated the formal comments from the Departmental GAO-OIG Liaison Office in the final report.

The report contains eight recommendations aimed at improving the overall effectiveness of the improper payment reduction program. The Departmental GAO-OIG Liaison Office concurred with all the recommendations. Based on information provided in the Department's response to the draft report, we consider all recommendations resolved. Once your office has fully implemented the recommendations, please submit a formal closeout letter to us within 30 days so that we may close the recommendations. The memorandum should be accompanied by evidence of completion of agreed-upon corrective actions and of the disposition of any monetary amounts.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

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

Attachment



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## Abbreviations

AFR	Annual Financial Report
CBP	U.S. Customs and Border Protection
CFO	Chief Financial Officer
DHS	Department of Homeland Security
ePMO	electronic Program Management Office
FEMA	Federal Emergency Management Agency
FY	fiscal year
ICE	U.S. Immigration and Customs Enforcement
IPERA	<i>Improper Payments and Elimination Recovery Act of 2010</i>
IPIA	<i>Improper Payments Information Act of 2002</i>
NPPD	National Protection and Programs Directorate
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
RM&A	Risk Management and Assurance
TSA	Transportation Security Administration
USCG	United States Coast Guard



## **Executive Summary**

In fiscal year 2010, the Federal Government's total improper payment amount was at a high of \$121 billion. In that same year, Congress passed the *Improper Payments Elimination and Recovery Act of 2010* in an effort to reduce improper payments. Since fiscal year 2010, the Federal Government's total improper payment rate has declined to \$115 and \$108 billion for fiscal years 2011 and 2012, respectively. In addition to reducing improper payments, the Act requires each agency's Inspector General to annually determine if the agency is in compliance with the Act.

Our audit objective was to determine whether the Department of Homeland Security (DHS) complied with the Act. In addition, we also evaluated the accuracy and completeness of DHS' improper payment reporting and its efforts to reduce and recover improper payments for fiscal year 2012.

We contracted with the independent public account firm, KPMG LLP, to determine whether DHS complied with the Act. KPMG LLP did not find any instances of noncompliance with the Act.

We reviewed the accuracy and completeness of DHS' improper payment reporting and its efforts to reduce and recover improper payments. DHS needs to improve internal controls to ensure the accuracy and completeness of improper payment reporting. Specifically, it needs to improve its review processes to ensure that the risk assessments properly support the components' determination of programs susceptible to significant improper payments. Furthermore, DHS needs to adequately segregate duties and improve its policies and procedures to identify, reduce, and report improper payments.

We made eight recommendations that if implemented would improve the accuracy and completeness of DHS' improper payment reporting and improve its efforts to recover any overpayments. The Department concurred with all of the recommendations.



## Background

DHS' mission is to counter terrorism and enhance U.S. security; secure and manage U.S. borders; enforce and administer U.S. immigration laws; protect cyber networks and critical infrastructure; and ensure resilience from disasters. In fiscal years (FY) 2011 and 2012, DHS paid \$63.6 billion and \$68.1 billion, respectively, in support of its mission. DHS identified 12 programs as high risk for improper payments based on FY 2012 risk assessments and FY 2011 payment sample testing. Out of the \$11.2 billion payments for these high-risk programs, DHS estimates it made a total of \$203 million in improper payments, a 1.82 percent error rate.

On July 22, 2010, the President signed Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010* (IPERA). The term improper payment—

- A. means any payment that DHS should not have made or that DHS made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements; and
- B. includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.<sup>1</sup>

IPERA requires that the head of each agency periodically review all programs and activities administered, and identify the programs and activities that may be susceptible to significant improper payments. These reviews shall take into account risk factors likely to contribute to the susceptibility of significant improper payments. IPERA considers a program susceptible to improper payments if improper payments in the program or activity in the preceding fiscal year exceeded \$10 million and account for 2.5 percent of program outlays.

With respect to each program identified as susceptible to significant improper payments, the head of the relevant agency shall produce a statistically valid estimate of the improper payments made by each program and activity, and include those estimates in the accompanying materials to the annual financial statements. For FY 2012, DHS reported an improper payment estimate of \$203 million from 12 programs across 4 components.

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<sup>1</sup> The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, April 14, 2011, also requires a payment to be considered an improper payment when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.



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**Table 1. DHS FY 2012 Estimated Improper Payment Amounts and Rates**

DHS Component	Estimated Payment Population (\$ millions)	Improper Payments (\$ millions)	Improper Payment Rate (%)
U.S. Customs and Border Protection			
Border Security Fencing	\$197	\$0	0.03%
Refund and Drawback	\$1,343	\$0	0.01%
Federal Emergency Management Agency			
Disaster Relief Program – Individuals and Households Program	\$880	\$3	0.29%
Disaster Relief Program – Vendor Payments	\$494	\$15	3.09%
Insurance – National Flood Insurance Program	\$794	\$6	0.75%
Grants – Public Assistance Programs	\$2,990	\$9	0.31%
Grants – Homeland Security Grant Program	\$1,472	\$15	1.00%
Grants – Assistance to Firefighters Grants	\$471	\$8	1.60%
Grants – Transit Security Grants Program	\$196	\$3	1.77%
Grants – Emergency Food and Shelter Program	\$45	\$1	2.51%
U.S. Immigration and Customs Enforcement			
Enforcement and Removal Operations	\$1,570	\$133	8.47%
National Protection and Programs Directorate			
Federal Protective Service	\$733	\$10	1.37%
DHS-All Programs	\$11,185	\$203	1.82%

Source: Data from DHS FY 2012 Annual Financial Report. DHS calculated its FY 2012 estimated improper payment rates using FY 2011 payment data.

The Office of Management and Budget (OMB) issued Circular A-123, Appendix C, *“Requirements for Effective Measurement and Remediation of Improper Payments,”* parts I and II, April 14, 2011, as guidance for agencies to implement the requirements of IPERA. This guidance includes responsibilities for the DHS Inspector General to determine DHS’ compliance with IPERA. To determine compliance with IPERA, the DHS Inspector General should review the agency’s Performance and Accountability Report (PAR) or Annual Financial Report (AFR) and any accompanying information to ensure that DHS has met IPERA reporting requirements.

In addition, the DHS Inspector General should also evaluate the accuracy and completeness of agency reporting, and evaluate agency performance in reducing and recapturing improper payments.



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We reviewed the processes and procedures for DHS and the following DHS components:

- United States Coast Guard (USCG);
- U.S. Customs and Border Protection (CBP);
- Federal Emergency Management Agency (FEMA);
- U.S. Immigration and Customs Enforcement (ICE);
- National Protection and Programs Directorate (NPPD); and
- Transportation Security Administration (TSA).

On February 25, 2012, the DHS Risk Management and Assurance Division (RM&A Division) issued version 2.0 of its *Improper Payments Reduction Guidebook* (Guidebook).<sup>2</sup> This Guidebook supports the Department's efforts to identify, reduce, report, and recoup improper payments. It also provides DHS components with instructions for complying with IPERA, Executive Order 13520, and OMB guidance for the implementation of IPERA.

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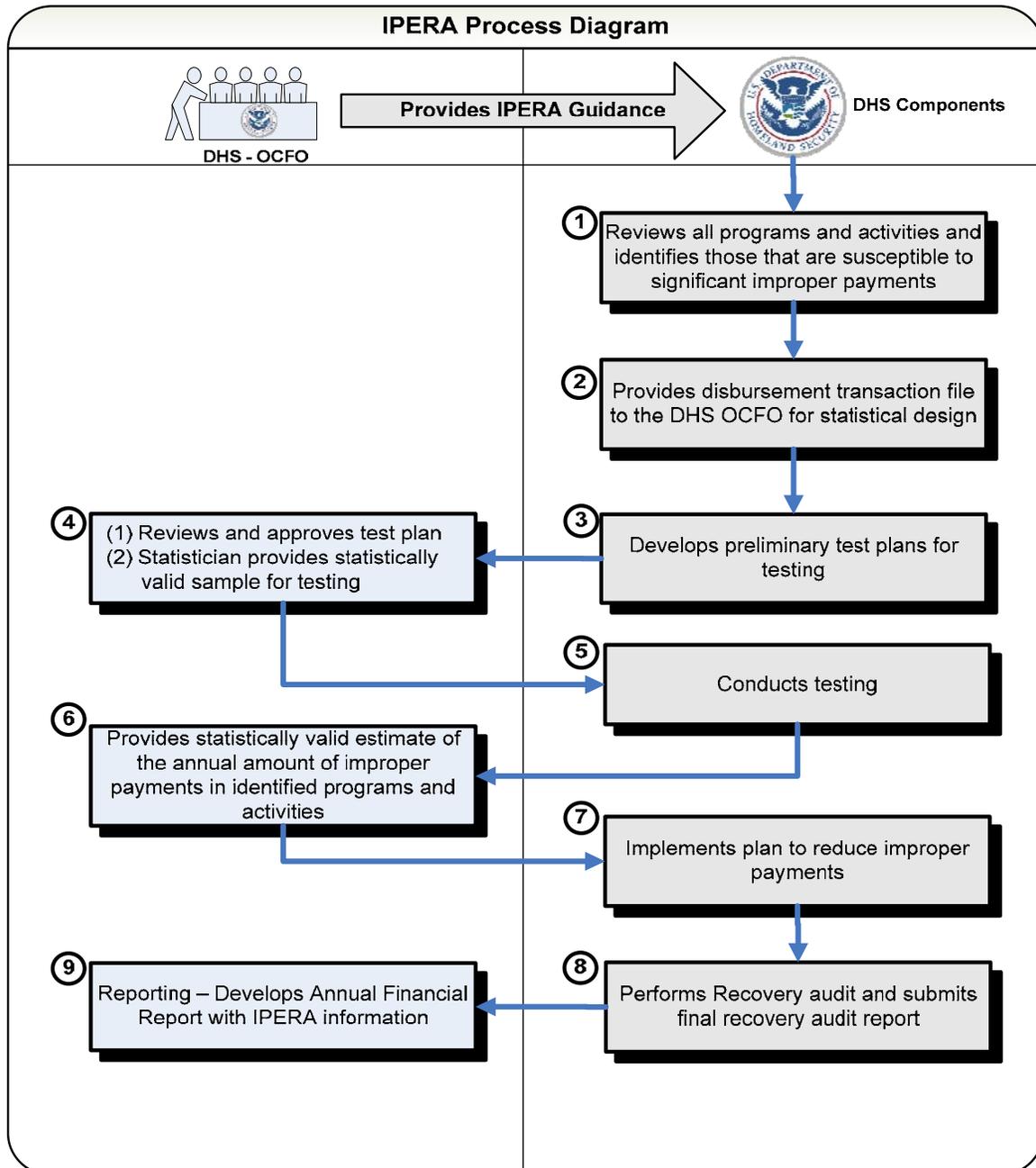
<sup>2</sup> Previously known as DHS Office of Chief Financial Officer, Internal Control Program Management Office or as DHS Office of Chief Financial Officer, Internal Control and Risk Management.



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The diagram below shows the process DHS components are required to follow to identify, estimate, report, and recover improper payments.



Source: Information obtained from the DHS *Improper Payments Reduction Guidebook*, Office of Chief Financial Officer, Risk Management and Assurance Division Office.



## Results of Audit

To comply with IPERA, an agency is required to conduct risk assessments and report and publish the results of selected program testing in its AFR.<sup>3</sup> It must also achieve and report improper payment rates of less than 10 percent for each program. KPMG LLP (KPMG) did not find any instances of noncompliance with IPERA.

Additionally, we reviewed the processes and procedures by which DHS estimates its annual improper payment rates. Based on our review, we determined that DHS needs to improve controls to ensure the accuracy and completeness of improper payment reporting.

### **DHS' Compliance with IPERA**

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We contracted with KPMG to determine whether DHS complied with IPERA in FY 2012. KPMG audited DHS to determine whether it met the following requirements prescribed by IPERA:

- Published an AFR and accompanying materials required by OMB on the agency website;
- Conducted required program-specific risk assessments;
- Published improper payment estimates for high-risk programs;
- Published programmatic corrective action plans;
- Published, and has met, annual reduction targets for programs at risk;
- Achieved and reported a gross improper payment rate of less than 10 percent for all programs tested; and
- Reported on its efforts to recover improper payments.

KPMG did not find any instances of noncompliance with the IPERA.

### **DHS' Controls over Improper Payment Testing and Reporting**

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DHS needs to improve its controls over improper payment testing and reporting. Specifically, it needs to improve its review processes to ensure that the risk assessments properly support the components' determination of programs susceptible to significant improper payments. Furthermore, DHS needs to adequately segregate duties and improve its policies and procedures to identify,

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<sup>3</sup> The risk assessments are annual reviews of all DHS-administered programs to identify programs susceptible to significant improper payments.



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reduce, and report improper payments. These conditions occurred because DHS guidance was unclear and DHS RM&A Division's review was not comprehensive.

#### **Components' Risk Assessments**

Components did not properly support the conclusions made in the risk assessments. Specifically, they did not perform interviews, properly support their risk templates, or obtain proper approval of the risk assessments. The DHS Guidebook requires the components to perform comprehensive risk assessments to identify programs susceptible to significant improper payments. To accomplish this task, DHS designed a detailed methodology that requires the components to perform the following activities:

1. Identify programs and determine population and scope of the component programs assessed.
2. Conduct and document interviews.
3. Populate a risk template.<sup>4</sup>
4. Validate risk elements and weights for each component program evaluated.
5. Identify programs at significant risk of improper payments.

CBP and USCG officials stated that they did not conduct and document risk assessment interviews to gain a full understanding of the payment risks each program faced. According to a CBP official, they did not perform any interviews with the program offices to complete the risk assessments. USCG officials stated that they primarily relied on previous years' risk assessments to complete the FY 2012 risk assessments. FEMA performed interviews but did not interview program managers or senior management as required by the DHS Guidebook.

CBP, TSA, and FEMA did not properly support the conclusions made in the risk template. The DHS Guidebook requires the components to assign a weight (risk weight) to reflect the level of importance and influence of established risk conditions and a score (risk score) to the risk conditions to reflect the degree of risk present. The risk weight and risk score explanations should be included in the risk template and understandable to an outside reviewer.

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<sup>4</sup> The risk template is populated with quantitative values (program disbursements) and qualitative values (degree of risk) to determine programs susceptible to improper payments.



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CBP, TSA, and FEMA risk weight explanations did not provide enough information to be understandable to a DHS reviewer. Specifically:

- CBP's risk template explained that it populated each risk condition based on the perceived risk it concluded corresponded to each applicable condition.
- TSA explained that the USCG Finance Center processed TSA payments and contracts. TSA determined the weight of each risk condition based on prior issues found during external audits, internal reviews, and input from each program office.
- FEMA, with the exception of grants, did not provide any explanation because it used the standard risk condition weights provided in the risk templates.

The explanations did not support why they gave certain weights for each risk condition or why risk weight distributions varied by program. In addition, FEMA and CBP changed the risk scores for some risk conditions but used the same explanation as FY 2011 to support the new score.

The CBP Chief Financial Officer (CFO) or Deputy CFO did not review and sign off on CBP's final risk assessment. According to the DHS Guidebook, risk assessments that are reviewed and approved by the DHS RM&A Division will undergo a last step before they are considered final: component CFO or Deputy CFO review and sign-off. According to CBP officials, the highest level of review and approval given to CBP's risk assessment was by the Director, Financial Management Division, who is neither the CFO nor the Deputy CFO.

### **Independence**

CBP did not have independent personnel developing and conducting the sample test plans. The DHS Guidebook indicates that payment reviewers should not have a role in processing or approving the specific payments under review. To the extent possible, payment reviewers should not have explicit annual performance goals related to reducing improper payments. OMB Circular A-123 provides that control activities include policies, procedures, and mechanisms in place to ensure that agencies meet their objectives. This includes proper segregation of duties designed to reduce improper payments, and test payment files for improper payments. This segregation will promote independence and reduce the risk of inaccurate or incomplete improper payment data.



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CBP has two high-risk programs that required sample testing, Border Security Fencing and Refunds and Drawbacks.<sup>5</sup> The Accounts Payable Directorate, who is directly responsible for reducing improper payments, oversaw the sample testing. The Accounts Payable Directorate designed the testing plan, distributed the sample to the testing teams, and reviewed the testing teams' results prior to submitting the information to the DHS RM&A Division. In addition, the testing team for one of the high-risk programs was the original approving authority for the disbursements under review. This is a repeat finding and recommendation previously reported in FY 2011.<sup>6</sup>

#### **DHS Guidebook**

The DHS Guidebook provided components with background of applicable IPERA guidance and instructions to help the Department meet IPERA requirements. However, the components often needed to rely on additional instructions to complete the Guidebook requirements because of the inconsistency of its instructions. For example, the Guidebook devotes one section to discussing how the components determine the risk elements for evaluating each program. According to the Guidebook, the DHS RM&A Division provides components with a risk template, which they need to support with specific risk documentation. However, the DHS Guidebook does not explain what documentation the RM&A Division expected from the components to support the risk template. From other sections of the Guidebook, it can be inferred that because the risk template should be based on existing documentation and management knowledge, the results of program office and management interviews, the results of audit findings and review findings, and from other improper payment work, that this information should be properly documented as support for the risk template. The Guidebook does not specifically state RM&A Division's expectations of specific risk documentation for the risk template. The DHS OIG also noted issues with the Guidebook during the FY 2011 DHS OIG IPERA audit. The RM&A Division made some improvements to the Guidebook in October 2012, based on feedback from the components.

#### **DHS RM&A Division's Reviews**

DHS RM&A Division's reviews should have found that the components did not properly support their risk assessments. The Division's responsibilities included

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<sup>5</sup> Reimbursement of duty paid for imported goods if exporting or returning goods to the supplier.

<sup>6</sup> DHS OIG, "Department of Homeland Security's Compliance with the *Improper Payments Elimination and Recovery Act of 2010*," OIG-12-48, March 2012.



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issuing the DHS Guidebook; reviewing and approving the components' comprehensive risk assessment and sample test plans; and performing an independent review of the sample test results. It reviewed all of the components' IPERA deliverables, which included risk assessments. The RM&A Division's risk assessment review consisted of comparing the FY 2011 and FY 2012 risk weight and risk score narratives to identify differences. If the Division identified a difference between fiscal year information, it occasionally requested additional clarification from the component to understand the change. The Division review did not include obtaining and reviewing the summary interviews to ensure that the components properly supported the risk weights and risk scores. Reviewing the summaries would have also identified that CBP and USCG did not perform the required interviews.

Because the DHS RM&A Division only analyzed the differences between FYs 2011 and 2012 risk weight and risk score narratives, it did not identify that the risk weights and risk scores were not properly supported. It did identify some errors during their review; however, it approved the risk assessment without requiring the components to complete the corrections.

The DHS RM&A Division also did not always follow the instructions or guidance that it issued. The Division's DHS Guidebook required the components to submit a summary write-up of the interviews to the RM&A Division for review and the component CFO or Deputy CFO to review and sign off on the risk assessments before they were considered final. During the FY 2012 IPERA review, the RM&A Division determined that it would not request the summary interviews and that CFO approval was not a specific requirement of the DHS Guidebook. In addition, the Division required the components to use DHS' electronic Program Management Office (ePMO) as a method for DHS RM&A to store, share, review, and approve IPERA documents online. However, the RM&A Division frequently reviewed and approved IPERA deliverables using email instead of using ePMO. For example, USCG received an email message from the RM&A Division approving the test plan in May, but the ePMO did not document RM&A Division's approval until September.



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### Recommendations

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that—

#### **Recommendation #1:**

DHS Risk Management and Assurance Division obtains and reviews the components' interviews to ensure that the risk weights and risk scores are accurate and supported.

#### **Recommendation #2:**

DHS Risk Management and Assurance Division requires all components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score.

#### **Recommendation #3:**

U.S. Customs and Border Protection and the United States Coast Guard perform interviews as part of the risk assessment process.

#### **Recommendation #4:**

Federal Emergency Management Agency performs interviews of the program managers or senior management.

#### **Recommendation #5:**

U.S. Customs and Border Protection's risk assessment is reviewed and approved by the Chief Financial Officer.

We also recommend that the Chief Financial Officer, Department of Homeland Security:

#### **Recommendation #6:**

Modify the DHS Guidebook to add clarification that explicitly describes how to complete the components' risk assessments.



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### **Recommendation #7:**

Develop and implement procedures to ensure the approval of risk templates only after the components have made all corrections.

### **Recommendation #8:**

Develop standard operating procedures that clearly identify how the IPERA reviews and approvals will be coordinated with the components.

### **Management Comments and OIG Analysis**

A copy of DHS' response in its entirety is included as Appendix B. The components also provided technical comments and suggested revisions to our report in a separate document. We reviewed the technical comments and made changes in the report when appropriate.

DHS acknowledged that it is still working to close the two remaining recommendations from the FY 2011 audit. Those recommendations required DHS to improve personnel independence in the testing phase and enhance the Department's recovery auditing efforts.<sup>7</sup> DHS plans to have FY 2011 corrective actions completed by September 30, 2013. For the FY 2012 audit, DHS concurred with all eight recommendations and has begun to formulate plans to implement the recommendations contained in the report. A summary of the responses and our analysis follows.

**Management Response to Recommendation #1:** DHS concurs. DHS has begun action to address this recommendation. In February 2013, as part of its FY 2013 risk assessment reviews, the RM&A Division formally requested the interview materials from all components. The RM&A Division will review the interview material to ensure that risk weights and scores submitted by the components are accurate and appropriately supported. DHS estimates that the RM&A Division will have all reviews completed by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the risk weights and risk scores with the supporting interviews.

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<sup>7</sup> DHS OIG, "Department of Homeland Security's Compliance with the *Improper Payments Elimination and Recovery Act of 2010*" OIG-12-48, March 2012.



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**Management Response to Recommendation #2:** DHS concurs. To address this recommendation, the RM&A Division has begun to review the submissions and coordinated with the components when necessary to ensure that submitted risk weights and scores are accurate and adequately supported. DHS estimates that the RM&A Division will have all reviews completed by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the risk weights and risk scores with the supporting documentation.

**Management Response to Recommendation #3:** DHS concurs. DHS has already taken action to address this recommendation. Specifically, CBP will keep separate interview notes, which will be available to independent reviewers, rather than directly integrating interview findings into the risk assessment, as was done in FY 2012. USCG will conduct interviews, validate data, and update the risk conditions. DHS estimates that the interviews will be completed by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the CBP and USCG interviews.

**Management Response to Recommendation #4:** DHS concurs. DHS estimates that FEMA will perform interviews of program managers and/or senior management by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the FEMA interviews.

**Management Response to Recommendation #5:** DHS concurs. DHS estimates that the CBP CFO will review and approve the FY 2013 risk assessment submission by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the CBP risk assessment.

**Management Response to Recommendation #6:** DHS concurs. DHS estimates that by March 29, 2013, the RM&A Division will update the DHS Guidebook to clarify what documentation is adequate and required to support the risk template.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the DHS Guidebook.



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**Management Response to Recommendation #7:** DHS concurs. DHS is taking actions to address this recommendation. Specifically, the RM&A Division has developed procedures to ensure that requested corrections and adjustments are addressed before final approval and acceptance of risk assessments. DHS estimates that the procedures will be implemented by March 29, 2013.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the procedures.

**Management Response to Recommendation #8:** DHS concurs. DHS estimates that by March 29, 2013, the RM&A Division will have implemented additional standard operating procedures for the review and final approval of risk assessments.

**OIG Analysis:** The recommendation will remain open and resolved until we have reviewed the procedures.



## **Appendix A**

### **Objectives, Scope, and Methodology**

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

The audit objective was to determine whether DHS complied with the *Improper Payments Elimination and Recovery Act of 2010*. In addition, we also evaluated the accuracy and completeness of DHS' improper payment reporting and its efforts in reducing and recovering improper payments for FY 2012.

The scope of the audit is DHS' FY 2012 efforts to comply with IPERA. We limited our scope to certain DHS components. We reviewed all components identified in DHS' AFR for FY 2011 as vulnerable to significant improper payments based on the FY 2011 risk assessments and prior year payment sample testing. The components reviewed were the United States Coast Guard, U.S. Customs and Border Protection, Federal Emergency Management Agency, U.S. Immigration and Customs Enforcement, Transportation Security Administration, and National Protection and Programs Directorate.

To understand DHS' requirements under IPERA and DHS' policies and procedures to meet those requirements, we obtained and reviewed relevant authorities and guidance including IPERA, OMB's memorandum on implementing IPERA, and the DHS *Improper Payments Reduction Guidebook*. We also interviewed officials in DHS' Office of Chief Financial Officer and the various components directly involved with IPERA implementation.

We contracted with independent auditor KPMG LLP to determine DHS compliance with IPERA. The contract required that KPMG perform its audit in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based upon the audit objectives.

At each component, KPMG performed the following:

- Obtained and read relevant authorities and guidance;
- Interviewed component management;
- Reviewed component policies;



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- Reviewed components' risk assessment processes;
- Reviewed components' sampling plans and methodologies; and
- Reviewed components' corrective action plans.

At DHS, KPMG reviewed DHS' FY 2012 AFR to determine compliance with reporting requirements.

To evaluate the accuracy and completeness of DHS' improper payment reporting, we performed the following procedures:

- Reviewed components' risk assessments;
- Reconciled components' risk assessments with FY 2011 gross disbursement data;
- Reviewed sample test plans and results; and
- Reviewed DHS' internal controls over the processes and procedures used to estimate the improper payment rate, including the risk assessment process, testing, and reporting.

We did not conduct any sample payment testing to validate DHS' estimated improper payment rates reported in the FY 2012 AFR.

To evaluate DHS' performance in reducing and recapturing improper payments, we performed the following procedures:

- Reviewed DHS' corrective action plans; and
- Determined recovery audits performed.

We conducted this performance audit between August 2012 and January 2013 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



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

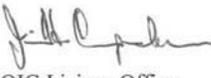
U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

March 4, 2013

MEMORANDUM FOR: Anne L. Richards  
Assistant Inspector General for Audit

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

SUBJECT: Department of Homeland Security's FY 2012 Compliance with the  
Improper Payments Elimination and Recovery Act of 2010  
(Project No. 12-002-AUD-MGMT)

Thank you for the opportunity to review and comment on this draft report. We appreciate the Office of Inspector General's (OIG's) work in conducting this statutorily required annual review and issuing this report.

We are pleased to note that for the fourth year in a row, KPMG LLP, the Department's independent auditor, has not identified any instances of noncompliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as amended. With respect to your Fiscal Year (FY) 2011 audit<sup>1</sup> recommendations, we acknowledge closure of four of the six recommendations and advancement to closure on the remaining two.

Specifically, the first open recommendation relates to improving personnel independence in the testing phase. We note the finding related to this recommendation has been partially addressed. Last year's report identified independence issues for Headquarters and two Components; this year's report identified only one Component. The second open recommendation relates to enhancing the Department's recovery auditing efforts, where cost effective. We have found that recovery auditing is not cost effective at the U.S. Secret Service because of security restrictions that necessitate all recovery audit work be performed on-site, the relatively small size of the U.S. Secret Service, and vendor feedback. We are working to improve our targeted recovery audit efforts for the U.S. Coast Guard (USCG) and its cross-serviced Components (i.e., the Transportation Security Administration and the Domestic Nuclear Detection Office), and these efforts will be completed by September 30, 2013.

The Department has enhanced its efforts to eliminate improper payments. For example, the Federal Emergency Management Agency (FEMA), working closely with the DHS Chief Financial Officer's Risk Management and Assurance Division (RM&A), continues to

<sup>1</sup> *Department of Homeland Security's Compliance with the Improper Payments Elimination and Recovery Act of 2010* (OIG-12-48, March 2012).



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consistently reduce the estimated error rate for FEMA's high-risk programs. Specifically, the overall error rate dropped from 8.0 percent reported in FY 2009 to 1.7 percent in FY 2010. The error rate fell below the reduced agency target rate of 1.5 percent in FY 2011 and FY 2012, 2 years in advance of the FY 2014 requirement. This improvement is a result of continuous focus and efforts by the RM&A and FEMA staffs, who led and completed corrective action plans to eliminate improper payments. Other FEMA improvements include adding applicant eligibility edit checks, standardizing documentation requirements, and providing training on the root causes of errors and steps to address payment risks.

The Department has also enhanced its efforts to eliminate improper payments above and beyond the statutory and regulatory requirements. In FY 2012, RM&A staff completed independent reviews of Component payment sample test results. The resulting reports allowed us to confirm findings and provide Component-specific and general recommendations to further improve the accuracy and efficiency of payment testing. The Department has instituted several efforts to improve payment controls and processes, and implemented the statutorily required "Do Not Pay Portal" databases. This portal will allow DHS to leverage existing government databases to identify and prevent potential improper payments. In addition, we have organized a Payment Center Work Group, bringing together Department and Component experts in payment management and processing, internal controls, and procurement to identify sources and causes of improper payments and existing best practices, as well as to promote the implementation of those practices.

Your FY 2012 report contained eight recommendations with which the Department concurs. Several of the recommendations require similar actions to close. The attached chart summarizes the completed and planned actions we have identified to address each recommendation. We request that all the recommendations be considered resolved and open.

Specifically, OIG recommended that the Chief Financial Officer, Department of Homeland Security ensure that the:

**Recommendation 1:** DHS Risk Management and Assurance Division obtains and reviews the components' interviews to ensure the risk weights and risk scores are accurate and supported. Estimated Completion Date (ECD): March 29, 2013.

**Response:** Concur. DHS has already taken action to address this recommendation. Specifically, Components were provided notice of this requirement during an October 17, 2012 Workshop on the Department's FY 2013 update to the Improper Payments Reduction Guidebook (Guidebook). Subsequently, RM&A requested interview materials from all Components on February 4, 2013, as part of its FY 2013 risk assessment review. These materials are being examined by RM&A staff to ensure risk weights and scores submitted by Components are accurate and appropriately supported.

**Recommendation 2:** DHS Risk Management and Assurance Division requires all components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score.



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**Response:** Concur. DHS has already taken action to address this recommendation. Specifically, the RM&A staff have reviewed the submissions and have extensively discussed with and made additional requests to Components where necessary to ensure submitted risk weights and scores are accurate and adequately supported. ECD: March 29, 2013.

**Recommendation 3:** U.S. Customs and Border Protection [CBP] and the U.S. Coast Guard perform interviews as part of the risk assessment process.

**Response:** Concur. DHS has already taken action to address this recommendation. Specifically, the Internal Controls Branch within the CBP Office of the Chief Financial Officer (OCFO) will keep separate interview notes, which will be available to independent reviewers, rather than directly integrating interview findings into the risk assessment, as was done in FY 2012. The USCG OCFO will conduct interviews, validate data, and update risk conditions. ECD: March 29, 2013.

**Recommendation 4:** Federal Emergency Management Agency [FEMA] performs interviews of the program managers or senior management.

**Response:** Concur. The FEMA OCFO will perform interviews of program managers and/or senior management. ECD: March 29, 2013.

**Recommendation 5:** U.S. Customs and Border Protection's risk assessment is reviewed and approved, at a minimum, by the Deputy Chief Financial Officer.

**Response:** Concur. CBP's Chief Financial Officer will sign the risk assessment submission after RM&A's final review and approval. ECD: March 29, 2013.

**Recommendation 6:** Modify the DHS Guidebook to add clarification that explicitly describes how to complete the components' risk assessments.

**Response:** Concur. RM&A will update the Guidebook to ensure clarification of what documentation is adequate and required to support the risk template. ECD: March 29, 2013.

**Recommendation 7:** Develop and implement procedures to ensure the approval of risk templates only after the components have made all corrections.

**Response:** Concur. DHS is taking action to address this recommendation. Specifically, RM&A developed procedures in support of the Guidebook. These procedures will ensure that requested corrections and adjustments are addressed before final approval and acceptance of risk assessments. ECD: March 29, 2013.

**Recommendation 8:** Develop standard operating procedures that clearly identify how the IPERA reviews and approvals will be coordinated with the components.

**Response:** Concur. RM&A will include additional standard operating procedures related to the coordination of review and final approval of risk assessments. ECD: March 29, 2013.



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

Attachment



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Department of Homeland Security

**Summary Chart of Completed and Planned Actions to Address Recommendations**

**Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010**

Recommendations	Actions			
	Provide guidance and train Components on interview requirements	Component actions completed	Review and approval action required	Enhance existing guidance and procedures
#1: DHS Risk Management and Assurance Division obtains and reviews the components' interviews to ensure the risk weights and risk scores are accurate and supported.	October 2012 √	February 2013 √	March 2013 (In Process)	March 2013 (In Process)
#2: DHS Risk Management and Assurance Division requires all components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score.	October 2012 √	February 2013 √	March 2013 (In Process)	March 2013 (In Process)
#3: U.S. Customs and Border Protection and the U.S. Coast Guard perform interviews as part of the risk assessment process.	October 2012 √	February 2013 √	March 2013 (In Process)	n/a
#4: Federal Emergency Management Agency performs interviews of the program managers or senior management.	October 2012 √	March 2013 (In Process)	March 2013 (In Process)	n/a
#5: U.S. Customs and Border Protection's risk assessment is reviewed and approved, at a minimum, by the Deputy Chief Financial Officer.	n/a	n/a	March 2013 (In Process)	n/a
#6: Modify the DHS Guidebook to add clarification that explicitly describes how to complete the components' risk assessments.	n/a	n/a	n/a	March 2013 (In Process)
#7: Develop and implement procedures to ensure the approval of risk templates only after the components have made all corrections.	n/a	n/a	n/a	March 2013 (In Process)
#8: Develop standard operating procedures that clearly identify how the IPERA reviews and approvals will be coordinated with the components.	n/a	n/a	n/a	March 2013 (In Process)

Attachment



## **Appendix C**

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## **Appendix D**

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