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U.S. Department of State • Broadcasting Board of Governors

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Audit of Broadcasting Board of Governors FY 2015 Compliance With Improper Payments Requirements

FINANCIAL MANAGEMENT DIVISION

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OIG HIGHLIGHTS

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What OIG Found

OIG found that BBG was in compliance with improper payment requirements for FY 2015, as presented in Table 1.

Table 1: Compliance with Improper Payment Criteria

Improper Payment Criteria	Compliance
Conducted Risk Assessment	Yes
Published PAR	Yes
Published Estimate	Not applicable*
Published Corrective Actions	Not applicable*
Published and Met Reduction Targets	Not applicable*
Published Error Rate Less Than 10 percent	Not applicable*

* These requirements only apply to agencies that have identified programs susceptible to significant improper payments.

Source: OIG created using criteria from Office of Management and Budget (OMB) Circular A-123, Appendix C.

OIG found that BBG complied with the requirement to perform program-specific risk assessments in FY 2015. Specifically, BBG elected to perform annual risk assessments of all key programs. BBG performed qualitative risk assessment testing for nine programs in FY 2015. BBG also performed quantitative risk assessment testing of Radio Free Europe/Radio Liberty, Middle East Broadcasting Networks, and domestic payroll as part of its rotational testing approach. The quantitative assessment found that domestic payroll was a program susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments." BBG is required to perform additional analysis of the domestic payroll program in FY 2016 as a result of its quantitative risk assessment.

In addition, BBG disclosed required improper payments information in its FY 2015 PAR. Specifically, BBG published an FY 2015 PAR and posted that report on its public website. In accordance with OMB Circular A-136, "Financial Reporting Requirements," BBG included in its PAR the required improper payments disclosures, including a list of its programs and a description of its process to identify programs susceptible to significant improper payments, including domestic payroll.

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What OIG Audited

In FY 2015, improper Federal payments Government-wide totaled approximately \$137 billion. The Improper Payments Information Act (IPIA), as amended, requires Federal agencies to annually identify programs and activities at high risk of improper payments and estimate the amount of improper payments, among other requirements. In addition, inspectors general are required to annually determine whether an agency is in compliance with improper payments requirements.

The Office of Inspector General (OIG) conducted this audit to determine whether the Broadcasting Board of Governors (BBG) was in compliance with IPIA, as amended. Specifically, OIG determined whether BBG conducted a risk assessment for significant programs and evaluated whether BBG reported the required improper payments information in its FY 2015 Performance and Accountability Report (PAR).

What OIG Recommends

Because BBG was found to be in compliance with improper payment requirements for FY 2015, OIG is not offering recommendations as a result of this audit.

BBG's comments to a draft of this report are reprinted in Appendix B.

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OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Broadcasting Board of Governors (BBG) was in compliance with the Improper Payments Information Act of 2002¹ (IPIA), as amended. Specifically, OIG determined whether BBG conducted a program-specific risk assessment for all programs covered by the Office of Management and Budget (OMB) requirements and evaluated whether BBG reported the required improper payments information in its FY 2015 Performance and Accountability Report (PAR).

BACKGROUND

According to the Department of the Treasury, improper Federal payments Government-wide totaled approximately \$137 billion in FY 2015.² Improper payments are payments that should not have been made or that were made in an incorrect amount. Improper payments include overpayments and underpayments that are made to eligible recipients, duplicate payments, payments made to an ineligible recipient, payments for an ineligible good or service, payments for goods or services not received (except for such payments authorized by law), payments that do not account for credit for applicable discounts, and payments for which an agency cannot determine whether the payments were proper because of insufficient or lack of supporting documentation.

The Federal Government has taken steps to identify and reduce improper payments. In 2002, Congress enacted IPIA, which required Federal agencies to annually review programs and activities³ to identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and report the actions taken to reduce improper payments.

In July 2010, the Improper Payments Elimination and Recovery Act⁴ (IPERA), which amended IPIA, was enacted in an effort to further reduce improper payments. IPERA clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required inspectors general to annually determine whether an agency was in compliance with improper payment requirements and established additional requirements for agencies that were deemed noncompliant.

In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012⁵ (IPERIA) was enacted. IPERIA further amended IPIA by requiring, among other things, that OMB

¹ Pub. L. No. 107-300.

² "About Improper Payments," <<https://paymentaccuracy.gov/about-improper-payments>>, accessed on April 11, 2016.

³ The term "program and activity" is referred to in this report as "program."

⁴ Pub. L. No. 111-204.

⁵ Pub. L. No. 112-248.

identify high-priority Federal programs for greater levels of oversight and review,⁶ provide guidance to agencies for improving estimates of improper payments, and establish a working system for prepayment and preaward review. IPERIA also amended the definition of “payment” to include payments made to employees.

In October 2014, OMB issued guidance for agencies implementing IPIA, IPERA, and IPERIA requirements as Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” of OMB Circular A-123, “Management’s Responsibility for Internal Control.” Among other things, the guidance defines the programs and payments that agencies must assess for the risk of improper payments; and it provides requirements for: determining whether the risk of improper payments is significant, developing an estimate of improper payments, performing recapture audit activities, and reporting improper payments activities.

BBG Mission and Organization

BBG, an independent Federal agency, supervises all U.S. Government-supported civilian international broadcasting. BBG’s mission is to inform, engage, and connect people around the world in support of freedom and democracy. The BBG Federal broadcasting organizations include the Voice of America and the Office of Cuba Broadcasting, as well as the management and support offices in the International Broadcasting Bureau. BBG also oversees three grantee organizations: Radio Free Europe/Radio Liberty (RFE/RL), Radio Free Asia, and the Middle East Broadcasting Networks (MBN). The three grantees receive funding from the Federal Government, but are organized and managed as private nonprofit corporations.

BBG’s Chief Financial Officer serves as BBG’s principal financial and budget officer. The Chief Financial Officer is responsible for, among other things, overseeing all financial management activities relating to BBG programs and operations, establishing effective financial management policies and management controls, and ensuring that BBG is in compliance with the requirements of Executive orders and OMB circulars.

Within the Office of the Chief Financial Officer, the Office of Financial Operations is responsible for the daily financial operations, accuracy of financial management records, prompt processing of payments, collection of accounts receivable, liaison with servicing agencies, and facilitation of BBG’s annual financial statement audit. The Financial Services Branch, within the Office of the Chief Financial Officer, processes payments initiated by domestic offices, including payments to domestic and overseas vendors, purchase card payments, and travel reimbursements. The Department of State processes payments initiated by BBG’s overseas locations on behalf of BBG. During FY 2015, BBG reported outlays⁷ totaling approximately \$734 million.

⁶ BBG does not have any high-priority programs, as identified by OMB.

⁷ Outlays include the issuance of checks, the disbursement of cash, or the electronic transfer of funds made to liquidate a Federal obligation.

AUDIT RESULTS

Finding A: BBG Was in Compliance With Improper Payments Requirements

OIG found that BBG complied with improper payment requirements.⁸ Specifically, BBG conducted program-specific risk assessments on significant programs, reported the required improper payments information in its FY 2015 PAR,⁹ and published the PAR on its public website.

Program Risk Assessments Were Performed

IPIA requires agencies to periodically review all programs and identify those programs that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C, defines significant improper payments as gross annual improper payments in a program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million. Agencies can use either a quantitative evaluation methodology based on a statistical sample or a qualitative assessment of risk factors likely to contribute to significant improper payments in performing risk assessments.

For programs that an agency initially determines are not high risk programs, the agency must conduct a risk assessment at least once every 3 years thereafter. However, agencies are required to consider annually whether significant changes to either legislation or funding would affect each program's risk susceptibility. BBG's process is to first perform qualitative risk assessment testing followed by quantitative risk assessment testing. BBG chooses to perform qualitative risk assessments for all programs annually and has implemented a 3-year rotational approach for quantitative risk assessments so that each program is tested once every 3 years.

⁸ OMB Circular A-123, Appendix C, identifies six requirements that agencies must meet to be compliant with improper payment requirements: (1) conduct a program specific risk assessment for each program; (2) publish a PAR for the most recent fiscal year and post the report and accompanying materials required by OMB to the agency website; (3) publish improper payment estimates for all programs identified as susceptible to improper payments, if required; (4) publish programmatic corrective actions plans in the PAR, if required; (5) publish and meet annual reduction targets for each program at risk for improper payments, if required; and (6) report a gross improper payment rate of less than 10 percent for each program for which an improper payment estimate was obtained and published in the PAR. Requirements 3 through 6 apply to agencies that have identified programs susceptible to significant improper payments in the year after a significant risk program has been identified. Because FY 2015 was the first year BBG identified a program susceptible to significant improper payments, it is not required to perform additional procedures and report requirements 3 through 6. Therefore, only requirements 1 and 2 apply to BBG for this reporting period.

⁹ Federal agencies may publish their financial statements in either a PAR or an Agency Financial Report. BBG elected to use the PAR format.

Qualitative Risk Assessments Were Performed

Although not required,¹⁰ BBG elected to perform annual risk assessments as part of its IPIA control procedures. BBG hired an independent public accounting firm to perform its annual qualitative risk assessment on its key programs in FY 2015. In addition to the eight programs that were tested in FY 2014,¹¹ BBG performed a risk assessment for overseas payroll in FY 2015. For the qualitative risk assessment, BBG's contractor ranked each program on a scale of 1 to 5, with 1 defined as "very high risk" and 5 defined as "very low risk," for eight risk factors: Operational and Inherent Risk, Complexity, Volume of Payments, Human Capital Risk, Historical Risk, Information Technology Risk, Compliance Risk, and Total Dollar Value. BBG calculated the average of the eight factor ratings to arrive at the overall risk for the program. The overall risk for the nine programs ranged from 3.13, moderate risk, to 4.81, very low risk.

Quantitative Risk Assessments Were Performed

The BBG contractor performed quantitative risk assessment testing of RFE/RL, MBN, and domestic payroll as part of BBG's rotational quantitative testing approach. To perform the quantitative analysis, the contractor tested a statistical sample of expenditures for the three programs. As detailed in Table 1, the contractor tested 178 payments, approximately .5 percent, of the 37,295 payments made for the 3 programs. These payments amounted to approximately \$203 million, or 51 percent, of the approximately \$395 million in RFE/RL, MBN, and domestic payroll payments.

Table 1. Results of Program Testing by BBG Contractor

Program	Number of Payments	Value of Payments	Number Tested	Value Tested	Number of Improper Payments	Value of Improper Payments
RFE/RL	21	\$104,898,719	21	\$104,898,719	0	\$0
MBN	12	97,117,670	12	97,117,670	0	0
Domestic Payroll	37,262	193,022,099	145	599,246	28	73,519
Total	37,295	\$395,038,488	178	\$202,615,635	28	\$73,519

Source: OIG prepared from data provided by BBG.

As a result of the quantitative risk assessment, BBG identified domestic payroll as a program that is susceptible to significant improper payments as defined in OMB Circular A-123, Appendix C. According to BBG officials, the primary reason for improper payments in the domestic payroll

¹⁰ Agencies are not required to perform an annual risk assessment for programs deemed not risk susceptible unless the programs experience a significant change in legislation or a significant increase in their funding level. In prior years, BBG had not identified any programs susceptible to significant improper payments, as defined by OMB Circular A-123, Appendix C.

¹¹ In 2014, BBG tested these key programs: Voice of America; Office of Cuba Broadcasting; RFE/RL; Radio Free Asia; MBN; the International Broadcasting Bureau; the Office of Technology, Services, and Innovation; and domestic payroll.

program was insufficient supporting documentation, such as time sheets. In FY 2016, BBG is required to perform additional analysis of the program in accordance with OMB Circular A-123, Appendix C, which includes obtaining a statistically valid estimate of the annual amount of improper payments and implementing a plan to reduce improper payments.

Required Improper Payments Information Was Reported

IPIA states that for an agency to be in compliance with the act, the agency must publish an Agency Financial Report or PAR¹² for the most recent fiscal year and post that report, with the information on improper payments required by OMB, on the agency's website. OMB Circular A-123, Appendix C, requires agencies to disclose specific information relating to improper payments in their annual PAR in the format provided in OMB Circular A-136, as revised, "Financial Reporting Requirements."

BBG published an FY 2015 PAR and posted that report on its public website. The FY 2015 PAR included the required improper payments information. Specifically, in accordance with OMB Circular A-136, BBG included in its PAR a list of its programs and a description of its process to identify programs susceptible to significant improper payments. BBG also completed and presented recaptured overpayment and "Do Not Pay" initiative tables in accordance with applicable OMB requirements. Further, BBG reported that there are sufficient internal controls and information system controls in place to detect and prevent improper payments. In addition, based on the quantitative risk assessment for FY 2015, BBG reported in its PAR that domestic payroll was a program susceptible to significant improper payments, as defined by OMB Circular A-123, Appendix C, which includes payments that lacked sufficient supporting documentation.

¹² BBG chooses to publish an annual PAR rather than an Agency Financial Report, which is permitted by OMB.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Improper Payments Elimination and Recovery Act of 2010¹ (IPERA), which amended the Improper Payments Information Act of 2002² (IPIA), requires the Office of Inspector General (OIG) to conduct an annual audit of the Broadcasting Board of Governors (BBG) compliance with improper payments requirements. In accordance with the IPERA requirement, OIG performed this audit to determine whether BBG was in compliance with IPIA, as amended by IPERA.

OIG's Office of Audits performed fieldwork from March to April 2016 at BBG's Office of Financial Operations in Washington, D.C. OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

To obtain background for the audit, OIG researched and reviewed legislative requirements related to improper payments, Office of Management and Budget (OMB) guidance, information from BBG's external financial statement auditor, and BBG policies. In addition, OIG reviewed and analyzed prior OIG audit work to identify information relating to improper payments issues that had been reported previously.

During the audit, OIG determined whether BBG conducted a program-specific risk assessment for all programs covered by OMB requirements and evaluated whether BBG reported the required improper payments information in its FY 2015 Performance and Accountability Report (PAR). To accomplish these objectives, OIG interviewed BBG officials to gain an understanding of BBG's processes for performing its risk assessment, identifying improper payments, and reporting improper payments information on its website. OIG reviewed and assessed BBG's policies and procedures for making payments, performing the risk assessment, conducting payment reviews, and reporting improper payments information. OIG also obtained and reviewed the documentation supporting the risk assessment testing that was performed and reviewed the improper payments information disclosed in the FY 2015 PAR for sufficiency.

Prior Reports

In FY 2015, OIG reported³ that BBG was in substantial compliance with IPIA requirements. Specifically, BBG performed risk assessments for each of its programs and determined that none were susceptible to significant improper payments. BBG published required IPIA information in its FY 2014 PAR and posted the report on its public website. BBG reported information on its

¹ Pub. L. No. 111-204.

² Pub. L. No. 107-300.

³ OIG, *Audit of Broadcasting Board of Governors FY 2014 Compliance With Improper Payments Requirements* (AUD-FM-IB-15-30, May 2015).

payment recapture audit program in the PAR. BBG also completed and presented recaptured overpayment and "Do Not Pay" initiative tables in accordance with OMB requirements. OIG found that BBG performed a cost benefit analysis on its programs and determined that it was not cost effective to perform recapture audits. In addition, BBG complied with Federal requirements by notifying OMB and OIG of its conclusion.

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. Specifically, OIG interviewed BBG officials to ascertain an understanding of BBG controls and reviewed controls contained in BBG's policies and procedures for making payments, performing risk assessments, and reporting improper payments information. OIG did not perform sample testing of these controls because it was beyond the scope of this audit.

Use of Computer-Processed Data

OIG obtained computer-processed data, such as spreadsheets, to aid in determining whether BBG had complied with IPIA. More specifically, the data provided evidence that BBG had taken steps to comply with IPIA. OIG did not perform tests to validate the spreadsheet amounts because such testing was not necessary to accomplish the objective of this audit.

APPENDIX B: BROADCASTING BOARD OF GOVERNORS RESPONSE



Broadcasting Board of Governors
United States of America

April 27, 2016

Mr. Norman Brown
Assistant Inspector General
Office of Inspector General
Department of State

Dear Mr. Brown:

We have received and reviewed the findings and recommendations contained in the draft report *Audit of Broadcasting Board of Governors (BBG) FY 2015 Compliance with Improper Payments Requirements*. We agree with the findings and assessment of the Office of Inspector General (OIG) in the draft report.

In FY 2015, the BBG tested domestic payroll, which resulted in a determination of significant risk largely due to inconsistent maintenance and certification of timesheets. The BBG is working diligently to convert from a manual payroll process to the fully automated self-entry system, WebTA. The BBG will be fully operational on WebTA by the end of FY 2016. WebTA is a proven time and attendance system used by numerous agencies within the Federal government. The BBG will immediately begin testing the effectiveness of WebTA and fully anticipates it will resolve the documentation issues resulting in the payment risk.

Thank you for the opportunity to respond to the draft report and for the continued partnership in ensuring compliance with laws and regulations. If you have any questions, please feel free to contact Ms. Susan Andross, Office of Compliance at (202) 382-(b) (6).

Sincerely,


John F. Lansing
Chief Executive Officer and Director



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ABBREVIATIONS

BBG	Broadcasting Board of Governors
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
MBN	Middle East Broadcasting Networks
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
RFE/RL	Radio Free Europe/Radio Liberty

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