Office of Inspector General

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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Audit of Broadcasting Board of Governors Compliance With the Improper Payments Information Act

Report Number AUD/IB-12-32, March 2012

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PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Harold W. Geisel
Deputy Inspector General

Acronyms

AO	Administrative Officer
BBG	Broadcasting Board of Governors
IPERA	Improper Payments Elimination and Reduction Act
IPIA	Improper Payments Information Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

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Executive Summary

According to the Office of Management and Budget (OMB), each year the Federal Government wastes billions of taxpayer dollars on improper payments. Improper payments are an issue that has been receiving increased attention within the Federal Government. In 2010, the Improper Payments Elimination and Recovery Act[1] (IPERA), which amended the Improper Payments Information Act[2] (IPIA), was enacted. IPERA strengthened IPIA by increasing requirements for identifying and recovering improper payments. As required by IPERA, OMB issued guidance to implement these requirements.

IPERA requires agencies' Offices of Inspector General (OIG) to annually determine compliance with improper payments requirements.[3] In accordance with this requirement, OIG conducted this audit to determine whether the Broadcasting Board of Governors (BBG) was in compliance with IPIA, which was amended by IPERA.

OIG found that BBG had not implemented all requirements for identifying and reporting data on improper payments. Specifically, BBG had not performed an assessment of the risk of improper payments as required because it had concluded that BBG was at low risk for making significant improper payments. BBG also had not implemented a payment recapture audit program because it concluded that this additional control would not be cost effective. In addition, BBG had not included all required information in its Performance and Accountability Report (PAR). BBG's policies did not include requirements for confirming that the information included in the PAR was complete. BBG officials stated that BBG would improve the information reported in the FY 2012 PAR.

Management Comments

In its February 2012 draft of this report provided to BBG, OIG made three recommendations for BBG to improve compliance with IPIA. Specifically, OIG recommended that BBG either perform a risk assessment and implement recapture audit techniques or better document the determination that these processes were not beneficial. In addition, OIG recommended that BBG develop a standardized process to ensure that all required information is included in the PAR.

In its March 6, 2012, response (see Appendix B), BBG indicated that it planned to complete a risk assessment of improper payments during FY 2012, that it was in the process of soliciting vendors to complete a recapture audit for BBG, and that it would include all required information in its FY 2012 PAR.

OIG considers the three recommendations resolved because BBG indicated that steps are being taken to implement the recommendations. However, these recommendations will remain open until BBG provides documentation showing that it has taken actions to fully implement the recommendations.

[1] Pub. L. No. 111-204.
[2] Pub. L. No. 107-300.
[3] Pub. L. No. 111-204 § 3(b).

Background

In FY 2010, despite efforts to reduce improper payments, Federal agencies reported approximately $125 billion in improper payments. Improper payments are payments that should not have been made or were made in the incorrect amount, which can include duplicate payments, payments to ineligible recipients, or payments made without sufficient documentation. Federal agencies need to improve the design and implementation of controls to prevent and detect improper payments.

Improper payments are a widespread and significant issue that has been receiving increased attention within the Federal Government. In 2002, IPIA[4] was enacted, which required agencies to annually review programs and activities in order to identify programs and activities susceptible to significant improper payments and to report that information to Congress.

During FY 2010, the Government implemented a number of changes to strengthen the framework for reducing and reporting improper payments. For example, the President issued Executive Order 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, which focused on Government transparency, agency and contractor accountability, and coordination between agencies. The President also issued two memoranda intended to expand agency efforts to recapture overpayments and directed that a “Do Not Pay List” be established to help prevent improper payments.

On July 22, 2010, the President signed into law IPERA,[5] which amended IPIA. IPERA strengthened IPIA by increasing management accountability and requiring additional efforts to recover improper payments. IPERA also required agencies’ Inspectors General to annually determine compliance with improper payments requirements. In addition, IPERA instructed OMB to provide guidance to agencies on implementing the new requirements. On April 14, 2011, OMB issued a revision to Appendix C of OMB Circular A-123, *Management’s Responsibility for Internal Control*. The OMB guidance provides information to agencies for implementing the IPERA requirements and was required to be used for FY 2011 reporting. Significant components of the guidance include requirements for the following:

- Reviewing programs to identify those programs susceptible to significant improper payments.
- Expanding payment recapture audits to all types of payments and activities with more than $1 million in annual expenditures if cost effective.
- Improving corrective action plans.
- Distributing funds recovered through payment recapture audits for authorized purposes.
- Establishing compliance reviews.

[4] Pub. L. No. 107-300.
[5] Pub. L. No. 111-204.

BBG's Payment Process

For FY 2011, BBG reported approximately $799 million in gross costs;[6] about $45 million of that amount was related to intragovernmental transactions and another $239 million was for personnel and benefits costs.[7] Of the remaining amount of approximately $515 million, $244 million was related to grants. As a steward of taxpayer money, BBG is accountable for how it uses its funds and is responsible for safeguarding against improper payments.

BBG has a standard process in place for making payments. When an invoice is sent from the vendor, it goes directly to the program office. The program office must document that the goods or services were received and accepted. Two different people in the program office are involved in the approval process: the receiving official accepts the goods or services, and the administrative officer (AO) reviews the invoice to ensure that it is accurate. For instance, the AO will verify that there is sufficient funding available to pay the invoice, the invoice number is unique, the work was performed within the authorized period of performance, the invoice is mathematically correct, and the rates match the contract. The program office electronically scans the invoice and other documentation and saves the documents in BBG's accounting system.

Once the information is entered into the accounting system, the transaction is routed to the Office of Financial Operations. BBG's accounting system has automated controls that verify certain payment-related information; for example, it will identify duplicate invoice numbers related to one vendor. The voucher examiner and certifying officer from the Office of Financial Operations perform another review of the invoice supporting documentation, which includes ensuring that invoice data matches information entered into the accounting system.

According to BBG's FY 2011 Performance and Accountability Report (PAR), BBG annually monitors payment operations and invests in staff training to ensure that erroneous payments do not occur. During FY 2011, BBG identified six erroneous payments, totaling $263,000, each of which was recovered.

Prior OIG Reports

OIG did not identify any prior OIG reports that were specifically related to improper payments at BBG. However, OIG noted that the external financial statement auditor assessed BBG expenditures during its FY 2011 audit. The most recent financial statement audit report, *Independent Auditor's Report on the Broadcasting Board of Governors 2011 and 2010 Financial Statements,*[8] did not include any findings specific to improper payments. However, the

[6] Gross costs would include items such as operating expenses, benefits, and depreciation.
[7] OMB Circular A-123, Appendix C, states that for purposes of assessing improper payments for IPERA, neither intragovernmental nor personnel expenditures need to be considered.
[8] AUD/IB-12-07, Nov. 2011.

management letter[9] related to this audit noted that BBG could not provide documentation to support the validity of four domestic operating expenses.

Objective

The overall objective of this audit was to determine whether BBG was in compliance with IPIA, which was amended by IPERA. In order to accomplish this objective, OIG

- Evaluated whether BBG conducted a program specific risk assessment for programs and activities.
- Evaluated BBG's performance in preventing, reducing, and recapturing improper payments.
- Reviewed BBG's FY 2011 PAR to determine whether BBG complied with reporting requirements.

[9] *Management Letter Related to the Audit of the Broadcasting Board of Governors 2011 and 2010 Financial Statements* (AUD/IB-12-08, Feb. 2012).

Audit Results

Finding A. Risk Assessment Was Not Performed as Required

A key control for identifying improper payments is a risk assessment, which is a comprehensive review and analysis of program operations to identify risks and measure the impact of those risks. OIG found that BBG had not performed the required risk assessment for improper payments because it concluded that BBG was at low risk overall for making significant improper payments. By not conducting a risk assessment, BBG cannot ensure that controls to prevent improper payments are operating as intended.

According to IPERA, agencies should use guidance provided by OMB to perform a review, also known as a "risk assessment," in order to identify programs that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C, defines the term "program" as activities or sets of activities recognized as programs, including grants and all types of procurements.[10] Unless an agency has a written waiver from OMB, the agency is required to take certain actions to identify programs at risk of significant improper payments. IPERA defines "significant improper payments" as incorrect payments within a program that exceed both 2.5 percent of program expenditures and $10 million in one year or $100 million. The method used by the agency to identify risk-susceptible programs should be systematic and can be based on a statistical sample or an analysis of risk factors.

BBG had not performed a risk assessment of its programs as required. A BBG official stated that the most significant factor leading to its decision that a risk assessment was not needed was that BBG considers itself at low risk overall to make a significant amount of improper payments. BBG concluded that significant improper payments, as defined by IPERA, would be unlikely given BBG's existing controls over payments, the low amount of its average payment, and its past history of identifying few improper payments. BBG did not document its decision to not perform the required risk assessment.

A BBG official stated that BBG had considered the controls in place related to making payments and noted that several independent staff people review invoices before a payment is made and that the accounting system has certain automated controls. BBG also considered the types of payments that it makes in order to determine whether significant improper payments were likely. A BBG official stated that about 80 percent of BBG's invoices are for small amounts.[11] Many larger payments are either repetitive (the same amount each payment, such as leases) or are made to BBG's three main grantees. Because of the high volume of low-dollar invoices, BBG officials stated that they believed it was unlikely that improper payments would be significant. In addition, during FY 2011, BBG identified only six improper payments, totaling $263,000, which was less than 1 percent of BBG's FY 2011 expenditures. Based on these factors, BBG determined that it was not necessary to perform an improper payments risk assessment. A BBG official stated that BBG has limited staffing resources and must focus on essential work.

[10] Intragovernmental transactions and personnel costs are exempted from the requirements.
[11] BBG estimated that the average expenditure per transaction was less than $9,200.

Although BBG's average transaction amount may be relatively small, in FY 2011 BBG expended more than $500 million in expenditures unrelated to personnel or Federal Government transactions; more than $240 million of that amount was for grant payments. Because BBG is expending a sizable amount of Government funds, it should ensure that it is making supportable and documented decisions related to improper payments. OIG noted that the Nuclear Regulatory Commission and the Corporation for National and Community Service, other agencies similar in size to BBG, reported performing risk assessments in accordance with IPERA.

By not performing a risk assessment, BBG does not have a systematic measurement of the extent of the improper payments at BBG, and so management cannot determine whether improper payments are significant enough to require corrective action. A thorough risk assessment allows entities to target high-risk areas and focus limited resources where the greatest exposure exists. The information developed during a risk assessment forms the basis upon which management can determine the nature and type of corrective actions needed, and it gives management baseline information for measuring progress in reducing improper payments. Having developed such a framework, an organization is well positioned to determine which control activities to implement to reduce risks and ultimately reduce fraud and errors.

Recommendation 1. OIG recommends that the Office of Financial Operations either perform a risk assessment to identify programs at high risk of improper payments or formally document the factors used to reach its conclusion that a risk assessment is not needed. If the Office of Financial Operations performs a risk assessment, the process should be formally documented in its policies. If a risk assessment is not performed, the Office of Financial Operations should document the Chief Financial Officer's approval. In addition, the Office of Financial Operations should reassess the decision annually to ensure that any changes in operating conditions are considered.

BBG Response: BBG stated that it plans on "completing a risk assessment of improper payments" during FY 2012 to identify programs "yielding the greatest exposure for improper payments." BBG also plans to create a policy for the risk assessment process and document the results of the risk assessment.

OIG Reply: OIG considers the recommendation resolved, pending further action. This recommendation can be closed pending OIG's review and acceptance of BBG's risk assessment of improper payments.

Finding B. Payment Recapture Audit Techniques Were Not Implemented as Required

Once an agency has identified programs that are at risk, it needs to take action to mitigate risk. Control activities are the techniques that agencies use to address improper payments, which can include both prepayment and postpayment mechanisms. One type of postpayment control is a recapture audit program. BBG has prepayment controls in place. Although BBG officials stated that BBG plans to improve postpayment control activities, BBG currently has not implemented recapture audit techniques as required because it concluded that additional controls would not be cost effective. Without sufficient postpayment controls in place, BBG may not be identifying all improper payments.

Agencies should implement a cost-effective program to prevent, detect, and recover overpayments. IPERA requires agencies with programs that have expenditures of over $1 million annually to conduct recovery audits if cost effective. A recovery audit, which is called a "payment recapture audit" by OMB, is a review or analysis of pertinent payment information that is specifically designed to identify overpayments, and it may be performed by employees or contractors.[12] Payment recapture auditing techniques include data mining and predictive modeling.

OMB guidance states that agencies should prioritize conducting payment recapture audits on programs or activities that have a higher potential for overpayments and recoveries. Agencies may exclude certain types of payments from payment recapture audit activities if the agency determines that payment recapture audits are not a cost-effective method for identifying and recapturing improper payments. If an agency determines that payment recapture audits would not be cost effective, it must notify OMB and the agency's Inspector General and provide support for this decision.

BBG's internal control activities to prevent and detect improper payments are focused on prepayment reviews. According to BBG officials, in addition to certain automated controls, four different officials review documentation before a payment is made. For instance, the program office's receiving official and the AO will ensure that goods or services were received and invoices were supported by documentation. In addition, two separate people in the Office of Financial Operations, the voucher examiner and the certifying officer, review supporting documentation before a payment is approved. This process is generally used for all domestic payments, including grants payments and some overseas payments. For overseas payments made by the Department of State on BBG's behalf, BBG relies on controls put in place by the Department.

BBG does not currently have a standardized process to review payments after they have been made, such as a payment recapture audit program. During FY 2011, BBG identified six improper payments, totaling approximately $263,000.[13] However, none of these improper payments were identified through a formal postpayment review process. Instead, the improper payments were identified either by a vendor that had not been paid who complained to BBG or by program officials who noted incorrect fund availability after a payment had been made.

A BBG official stated that BBG plans to improve its postpayment control activities. Currently, BBG is in the process of trying to hire a contractor to perform recapture audits to identify errors made on payments to contractors. A BBG official stated that BBG anticipates compensating the contractor on a contingency fee basis. In addition, BBG recently hired an employee to implement OMB Circular A-123 and plans to have this employee develop a method to test payments, which would improve oversight.

[12] A payment recapture audit is not an audit in the traditional sense; rather, it is a control activity designed to identify and recapture overpayments and, as such, is a management function and responsibility.
[13] All six improper payments were recovered.

BBG had not implemented a payment recapture audit program because it concluded that the additional control activities would not be cost effective. Although BBG did not document its assessment, a BBG official stated that she had performed an analysis of payments to assist in determining the usefulness of implementing different types of recapture audit techniques. Based on this analysis and considering the prepayment controls in place, the official concluded that additional controls would be more costly to perform than the benefits gained. However, BBG did not notify OMB or OIG of this decision, as was required.

For overseas payments made on its behalf by the Department of State, BBG did not implement additional controls because it relied on Department control activities. While the Department had prepayment controls in place for disbursements, it had not implemented standardized postpayment controls for overseas payments because of challenges in its financial management system.

It is generally more efficient for agencies to ensure payments are made correctly rather than to try to recover improper payments after they have been made. However, because some improper payments may be inevitable, agencies also need to implement effective control activities to identity and recover overpayments. Control activities would also provide data on why improper payments were made, which would highlight areas that warrant better controls.

Different types of recapture audit techniques exist that BBG could consider implementing. For instance, BBG could perform some type of predictive modeling of payments, which means that BBG would establish criteria to identify potentially high-risk payments for increased focus. BBG could also consider performing data mining, which is a tool to analyze data for relationships, such as comparing payments to a recipient. Not all recapture audit techniques would require a significant outlay of resources to implement.

By not having a robust recovery auditing process in place, BBG may not be identifying and recovering all improper payments. Improper payments in a Federal agency can lead to accomplishing less programmatically than could be expected and could indicate that agencies are spending more than necessary to meet program goals. Improper payments also represent wasteful spending and a higher relative tax burden that prompts questions and criticism from the Congress, the media, and taxpayers. Given the current fiscal environment, it is critical for Federal agencies to ensure that funds are spent as intended. Agencies need to do more with less, and resources must be managed properly. One way to do this is to eliminate improper spending.

Recommendation 2. OIG recommends that the Office of Financial Operations either implement a recapture audit program for domestic and overseas payments or perform and document a cost-benefit analysis supporting its decision not to implement recapture audit techniques. If the Office of Financial Operations implements a recapture audit program, the process should be formally documented in its policies. If the Office of Financial Operations chooses not to implement a recapture audit program, it should formally notify both the Office of Management and Budget and OIG and provide sufficient documentation to support the decision.

BBG Response: BBG stated it is in the process of "soliciting vendors to complete a recapture audit for the agency." BBG also plans to create "post-payment controls" and then will perform "post-payment reviews during the fiscal year."

OIG Reply: OIG considers the recommendation resolved, pending further action. This recommendation can be closed pending OIG's review and acceptance of BBG's documentation related to the implementation of the recapture audit process.

Finding C. FY 2011 Performance and Accountability Report Did Not Include All Required Information

Agency financial reports play a significant role in fulfilling the Government's duty to be publicly accountable and can be used to assess an agency's efficiency and effectiveness in performing activities, such as identifying and recapturing improper payments. An agency's PAR is the method that the agency should use to report information required by IPERA. Although BBG published its FY 2011 PAR as required, the PAR did not include all required information. BBG did not provide an explanation as to why these items were excluded from the FY 2011 PAR. OIG noted that BBG's policies did not include procedures for confirming that the information included in the PAR was complete. A BBG official stated that BBG would improve the information reported in the FY 2012 PAR. By not including all required information in its financial statements, BBG is not providing users with relevant and reliable information about its efforts related to improper payments.

IPERA required OMB to issue implementing guidance, including how agencies should report on actions to reduce improper payments, recovery actions, and governmentwide reporting. IPERA specifically requires agencies to publish an annual financial statement for the most recent fiscal year and to post that report, with additional materials required by OMB, on the agencies' Web sites. OMB Circular A-123, Appendix C, requires agencies to report information in the format included in OMB Circular A-136.[14]

OIG confirmed that BBG had posted its FY 2011 PAR, which included the annual financial statements and a section on IPIA reporting, on BBG's Web site. Although the PAR included some information required by OMB Circular A-136, it did not include all required data. For instance, although OMB Circular A-136 requires agencies to document risk-assessment procedures that it performed to identify programs susceptible to significant improper payments, the PAR did not clearly inform users that a risk assessment was not performed. In addition, the PAR did not clearly describe the actions BBG took to determine that a risk assessment was not needed.

OMB Circular A-136 requires agencies to describe any programs or activities excluded from review during a payment recapture audit. This description should include the justification for not including areas in the review process, such as a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost effective. BBG does not

[14] OMB Circular A-136, *Financial Reporting Requirements*.

currently have a payment recapture or recovery audit process in place and BBG did not include information in the PAR to justify its decision not to perform a payment recapture audit process.

OMB Circular A-136 requires agencies to include information on payments identified and recovered through sources other than payment recapture audits. The guidance requires current year and prior year data be included. BBG included some information on payments identified as improper in FY 2011. However, BBG did not include information on improper payments that may have been identified by other sources, such as Single Audit Act[15] reports or grant reviews. BBG also did not report prior year information and did not include the information in the table format required by OMB.

When asked why these items were not included in BBG's PAR, a BBG official agreed that BBG could have done a better job in describing its approach to a risk assessment and stated that BBG would improve its reporting in its FY 2012 PAR. The official did not agree that BBG had excluded any items from its improper payment reviews. As described in Finding B, although BBG has certain controls in place over payments, it has not implemented a payment recapture audit process as defined by IPERA, and this information should have been disclosed in BBG's PAR. The BBG official also stated that BBG would, as needed, report additional required information on improper payments identified through other sources and prior year information in its FY 2012 PAR. OIG noted that BBG's Broadcasting Administrative Manual did not include policies or procedures for confirming that the information included in the PAR was complete.

It is important that the results of an agency's actions related to improper payments be available not only to the Congress and agency management but also to the general public. This transparency demonstrates the importance that the agency places on openly communicating performance results. This transparency also acts as an incentive for agencies to maintain their efforts to address improper payments that can result from lapses in controls. By not including all required information in its financial statements, BBG is not providing users with relevant and reliable information about its efforts related to improper payments.

Recommendation 3. OIG recommends that the Office of Financial Operations develop a standardized process to ensure that all required information is included in the Broadcasting Board of Governors Performance and Accountability Report and that the process is formally documented in its policies.

BBG Response: BBG concurred that "certain decisions and data were omitted" from the FY 2011 PAR. BBG will include those items in the FY 2012 PAR and will supplement its procedures for producing the PAR to "include all required components related to improper payments" as required by OMB.

OIG Reply: OIG considers the recommendation resolved, pending further action. This recommendation can be closed pending OIG's review and acceptance of BBG's FY 2012 PAR.

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[15] The Single Audit Act provides audit requirements to ensure that grants are expended properly.

List of Recommendations

Recommendation 1. OIG recommends that the Office of Financial Operations either perform a risk assessment to identify programs at high risk of improper payments or formally document the factors used to reach its conclusion that a risk assessment is not needed. If the Office of Financial Operations performs a risk assessment, the process should be formally documented in its policies. If a risk assessment is not performed, the Office of Financial Operations should document the Chief Financial Officer's approval. In addition, the Office of Financial Operations should reassess the decision annually to ensure that any changes in operating conditions are considered.

Recommendation 2. OIG recommends that the Office of Financial Operations either implement a recapture audit program for domestic and overseas payments or perform and document a cost-benefit analysis supporting its decision not to implement recapture audit techniques. If the Office of Financial Operations implements a recapture audit program, the process should be formally documented in its policies. If the Office of Financial Operations chooses to not implement a recapture audit program, it should formally notify both the Office of Management and Budget and OIG and provide sufficient documentation to support the decision.

Recommendation 3. OIG recommends that the Office of Financial Operations develop a standardized process to ensure that all required information is included in the Broadcasting Board of Governors Performance and Accountability Report and that the process is formally documented in its policies.

Appendix A

Scope and Methodology

The Improper Payments Elimination and Recovery Act of 2010[1] (IPERA), which amends the Improper Payments Information Act[2] (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, which was amended by IPERA.

OIG conducted fieldwork for this audit between January 9 and February 1, 2012, at BBG's Office of Financial Operations in Washington, DC. 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 objective. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective.

To obtain background for the audit, OIG researched and reviewed legislative requirements related to improper payments, Government Accountability Office reports and testimony, Office of Management and Budget guidance, information from BBG's external financial statement auditor, BBG policies, and Agency Financial Reports and Performance and Accountability Reports (PAR) from other agencies. In addition, OIG reviewed and analyzed prior OIG audit work to identify information relating to improper payment issues that had been reported previously.

During the audit, OIG evaluated whether BBG had conducted a program-specific risk assessment for each required program or activity; evaluated BBG's performance in preventing, reducing, and recapturing improper payments; and reviewed BBG's FY 2011 PAR to determine whether BBG had complied with reporting requirements. In order to accomplish the audit, OIG interviewed BBG officials to gain an understanding of the procedures for making payments, identifying improper payments, and preparing the improper payments section of the PAR. OIG obtained and analyzed the information in BBG's PAR, and it reviewed BBG's draft statement of work for recapture audit services. Because the Department of State makes payments on behalf of BBG, OIG obtained information from the ongoing audit of the Department's compliance with IPIA to determine what controls the Department has in place for overseas payments.

Use of Computer-Processed Data

OIG did not rely on computer-processed data during this audit.

[1] Pub. L. No. 111-204 § 3(b).
[2] Pub. L. No. 107-300.

Work Related to Internal Controls

OIG performed steps to identify BBG's controls related to identifying improper payments. BBG had not performed a risk assessment or implemented postpayment controls, but OIG gained an understanding of BBG's process to approve invoices for payment. Work performed on internal controls during the audit is detailed in the Audit Results section of the report.

Appendix B

BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA

March 6, 2012

Mr. Harold W. Geisel
Deputy Inspector General
Office of Inspector General
Department of State
Washington, DC 20522-0308

Dear, Mr. Geisel:

This is in response to your request for comments on the draft management letter related to the Audit of the Broadcasting Board of Governors Compliance with the Improper Payments Information Act. We have reviewed the observations and conclusions of the Office of Inspector General (OIG) and have provided the attached responses.

I assure you that we take the recommendations seriously and will monitor the progress made to address each recommendation.

Thank you for the opportunity to respond.

Sincerely,

Maryjean Buhler
Chief Financial Officer

Attachment:
BBG Response

cc: (b) (6) [redacted] Financial Operations

330 INDEPENDENCE AVENUE, SW ROOM 3360 COHEN BUILDING WASHINGTON, DC 20237 (202) 203-4545 FAX (202) 203-4568

Appendix B

Broadcasting Board of Governors
Audit of Compliance with the Improper Payments Information Act
February 2012

BBG Responses to the Audit Recommendations

Finding A - Risk Assessment was not Performed as Required

Audit Recommendation:

OIG recommends that the Office of Financial Operations either perform a risk assessment to identify programs at high risk of improper payments or formally document the factors used to reach its conclusion that a risk assessment is not needed. If the Office of Financial Operations performs a risk assessment, the process should be formally documented in its policies. If a risk assessment is not performed, the Office of Financial Operations should document the Chief Financial Officer's approval. In addition, the Office of Financial Operations should reassess the decision annually to ensure that any changes in operating conditions are considered.

BBG Response:

We anticipate completing a risk assessment of improper payments during fiscal year 2012 to identify the programs yielding the greatest exposure for improper payments. A policy will be created for this risk assessment activity and will be conducted in conjunction with the Accounts Payables manager. Results of our findings will be documented and communicated to the OIG as well as included in the FY2012 PAR.

Finding B - Payment Recapture Audit Techniques were not Implemented as Required

Audit Recommendation:

OIG recommends that the Office of Financial Operations either implement a recapture audit program for domestic and overseas payments or perform and document a cost-benefit analysis supporting its decision not to implement recapture audit techniques. If the Office of Financial Operations implements a recapture audit program, the process should be formally documented in its policies. If the Office of Financial Operations chooses not to implement a recapture audit program, it should formally notify both the Office of Management and Budget and OIG and provide sufficient documentation to support the decision.

Appendix B

BBG Response:

As mentioned by staff during the audit and noted in your report, the BBG is currently in the process of soliciting vendors to complete a recapture audit for the agency. The actual scope and cost of these services is yet to be determined. We also plan on creating post-payment controls and then performing post-payment reviews during the fiscal year. All new control processes will be documented and results of both the post-payment audit and supplemental reviews will be reflected in the FY2012 PAR.

Finding C - FY2011 Performance and Accountability Report did not Include all Required Information

Audit Recommendation:

OIG recommends that the Office of Financial Operations develop a standardized process to ensure that all required information is included in the Broadcasting Board of Governors Performance and Accountability Report and that the process is formally documented in its policies.

BBG Response:

We concur that certain decisions and data were omitted in the FY2011 PAR. Those items will now be included in the FY2012 PAR. In addition, we will supplement our procedures for creating the PAR to include all required components related to improper payments as outlined in OMB Circular A-136.

Major Contributors to This Report

Gayle Voshell, Director
Financial Management Division
Office of Audits

Margery Karlin, Auditor
Financial Management Division
Office of Audits

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