



UNITED STATES DEPARTMENT OF STATE
AND THE BROADCASTING BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL

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Office of Audits

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**Audit of Broadcasting Board of Governors
FY 2012 Compliance With
Improper Payments Requirements**

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United States Department of State
and the Broadcasting Board of Governors

Office of Inspector General

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.

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel
Deputy Inspector General

Acronyms

BBG	Broadcasting Board of Governors
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
MBN	Middle East Broadcasting Networks
OCB	Office of Cuba Broadcasting
OFO	Office of Financial Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
RFA	Radio Free Asia
RFE/RL	Radio Free Europe/Radio Liberty
VOA	Voice of America

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Executive Summary

Federal agencies reported an estimated \$108 billion in improper payments in FY 2012. Over the past decade, the Federal Government has taken steps to identify and reduce improper payments. In 2010, the Improper Payments Elimination and Recovery Act of 2010¹ (IPERA), which amended the Improper Payments Information Act of 2002² (IPIA), was signed into law. IPERA strengthened IPIA by increasing requirements for identifying and reporting on improper payments. In April 2011, the Office of Management and Budget (OMB) issued guidance to implement IPERA requirements.

IPERA requires agencies' Offices of Inspector General (OIG) to annually determine compliance with improper payments requirements. In accordance with this requirement, OIG conducted its first annual audit of the Broadcasting Board of Governors (BBG) FY 2011 compliance and reported in 2012³ that BBG had not implemented all requirements for identifying and reporting on improper payments. OIG recommended that BBG take actions to comply with IPIA, as amended by IPERA.⁴

OIG conducted this second annual audit to assess BBG's FY 2012 compliance with IPIA. OIG found that BBG complied with improper payments requirements. Specifically, BBG had conducted an improper payments risk assessment of its significant programs; implemented a program of internal control to prevent, detect, and recapture improper payments; and reported the required improper payments information in its FY 2012 Performance and Accountability Report (PAR). Based on the actions that BBG has taken since the 2012 report, OIG is closing the three recommendations in the 2012 report upon issuance of this report.

On March 5, 2013, OIG provided a copy of the draft report to BBG, and on March 13, 2013, BBG responded that it had no comments on the report.

Background

Federal agencies reported an estimated \$108 billion in improper payments in FY 2012. An improper payment is any payment that should not have been made or was made in an incorrect amount. Improper payments are overpayments and underpayments, including duplicate payments, payments made to an ineligible recipient, payments for an ineligible good or service or for goods or services not received, 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 documentation or lack of documentation.

Over the past decade, the Federal Government has taken steps to identify and reduce improper payments. For example, IPIA, enacted in 2002, required Federal agencies to annually

¹ Pub. L. No. 111-204.

² Pub. L. No. 107-300.

³ *Audit of Broadcasting Board of Governors Compliance With the Improper Payments Information Act* (AUD/IB-12-32, March 2012).

⁴ Unless otherwise indicated, the term "IPIA" means "IPIA, as amended by IPERA" in this report.

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review programs and activities⁵ 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 the improper payments. In 2010, IPERA, which amended IPIA, clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required Inspectors General to determine whether an agency is in compliance and established additional requirements for agencies deemed noncompliant.

In 2011, OMB issued Government-wide guidance on the implementation of IPERA as Revised Parts I and II to Appendix C of OMB Circular A-123, *Management's Responsibility for Internal Controls*.⁶ The guidance, among other things, defined the programs and payments that agencies must assess for the risk of improper payments. It also provided requirements for determining whether the risk of improper payments is significant, for developing an estimate of improper payments, for performing recapture audit activities, and for 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 (VOA) and the Office of Cuba Broadcasting (OCB), 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 (RFA), and the Middle East Broadcasting Networks (MBN). RFE/RL, RFA, and MBN 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 (OFO) is responsible for financial operations, the accuracy of financial management records, prompt processing of payments, collection of accounts receivables, liaison with servicing agencies, and facilitation of the annual audit of BBG's financial statements. OFO's Financial Services Branch processes payments that are initiated by BBG's domestic offices, while the Department of State processes payments initiated by BBG's overseas locations. During FY 2012, BBG reported outlays⁷ amounting to approximately \$750 million. Of that amount,

⁵ The term "program and activity" will be referred to in this report as "program."

⁶ OMB Circular A-123, Appendix C, Revised Parts I and II will be referred to in this report as Circular A-123, Appendix C.

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

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payments of approximately \$438 million to private sector vendors and grantees were subject to the improper payments requirements of IPIA.⁸

Prior OIG Reports

In 2012, OIG reported⁹ 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, had not implemented a payment recapture audit program, and had not included all required information in its PAR. OIG recommended that OFO perform a program risk assessment or document the Chief Financial Officer's approval for not performing the assessment, implement a recapture audit program or formally notify OMB and OIG of its decision not to do so, and develop and formally document a standardized process to ensure that all required information is included in its PAR. These recommendations remained resolved but open at the time of the fieldwork for this audit.

Objective

The overall objective of this audit was to determine whether BBG was in compliance with IPIA. To accomplish this objective, OIG

- Evaluated whether BBG conducted a risk assessment for significant programs.
- Evaluated BBG's controls for preventing, detecting, and recapturing improper payments.
- Determined whether BBG reported the required improper payments information in its FY 2012 PAR.

Audit Results

OIG found that BBG had complied with IPIA requirements. Specifically, BBG conducted an improper payments risk assessment of its significant programs; implemented a program of internal control to prevent, detect, and recapture improper payments; and reported the required improper payments information in its FY 2012 PAR.

Finding A. Program Risk Assessments Were Performed

IPIA requires agencies to periodically review all programs and identify those that may be susceptible to significant improper payments. OMB Circular A-123, Appendix C, defines "significant improper payments" as gross annual improper payments in the program exceeding

⁸ OMB Circular A-123, Appendix C, defines "payment" as "any payment or transfer of Federal funds to any non-Federal person or entity." Therefore, agencies are not obligated to review intra-governmental transactions and payments to employees unless directed to do so by OMB.

⁹ *Audit of Broadcasting Board of Governors Compliance With the Improper Payments Information Act* (AUD/IB-12-32, March 2012).

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(1) both 2.5 percent of program outlays and \$10 million of all program payments made during the fiscal year or (2) \$100 million. The Circular requires that agencies institute a systematic method of performing the reviews, also known as “risk assessments.” An agency can perform a quantitative evaluation based on a statistical sample, or it can perform a qualitative assessment of risk factors likely to contribute to significant improper payments.

BBG performed a systematic risk assessment to identify programs that may be susceptible to significant improper payments. Initially, BBG assessed the five programs that provide BBG broadcast services: VOA, OCB, RFE/FL, RFA, and MBN. In performing the assessment, BBG applied the 2.5 percent rate and \$10 million threshold to the FY 2012 outlays for each program. Based on its calculations, BBG determined that none of the programs met the 2.5 percent and \$10 million threshold, with the improper payments error rate required for each program to be susceptible to significant improper payments ranging from 5.8 percent to 43.7 percent of FY 2012 outlays.

Subsequent to its initial risk assessment, BBG separated the payments for the International Broadcasting Bureau and the Office of Technology, Services and Innovation¹⁰ from the existing five programs and created two additional programs. BBG decided to identify these groups as separate programs because they are operationally different from the broadcast services programs.

BBG then performed a qualitative assessment of the seven programs. BBG rated each of the programs 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 Risk, Complexity, Volume of Payments, Human Capital Risk, Historical Risk, Information Technology Risk, Compliance Risk, and Total Dollar Value. The ratings for each factor were averaged to arrive at the overall risk for each program. The overall risk for the seven programs ranged from 3.63, moderate to low risk, to 5, very low risk.

BBG also performed a quantitative assessment of two programs: MBN and RFE/RL. Because the total population of payments for these programs was low, BBG reviewed all payments in lieu of a statistical sample. None of the 33 payments, amounting to \$205,516,067, for the two programs was found to be improper.

Based on the results of its risk assessment, BBG did not identify any programs susceptible to significant improper payments as defined by OMB Circular A-123, Appendix C.

To identify significant changes that could increase the susceptibility of its programs to improper payments, BBG developed risk assessment procedures. The procedures require that BBG conduct a qualitative assessment of its programs annually. The procedures also require that BBG perform a quantitative risk assessment, based on a statistical sample, each year for any programs identified as susceptible to improper payments and at least once every 3 years for all programs regardless of the assessed risk level.

¹⁰ The Office of Technology, Services and Innovation provides BBG with the technology necessary to conduct its daily business, accomplish its mission, and deliver its content to populations throughout the globe.

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OIG's 2012 report (AUD/IB-12-32) on BBG's compliance with IPIA included a recommendation relating to BBG's improper payments risk assessment as follows:

***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.*

Based on the actions that BBG has taken since the 2012 report, OIG is closing Recommendation 1 upon issuance of this report.

Finding B. Controls To Prevent, Detect, and Recapture Improper Payments Were Implemented

IPIA requires agencies to conduct recovery audits (also known as "recapture audits") for each program that expends \$1 million or more annually if conducting such audits would be cost effective. OMB Circular A-123, Appendix C, states that when implementing a payment recapture audit program, "agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments." Prevention activities are designed to prevent improper payments from occurring, while detection activities occur subsequent to payment and are intended to detect improper payments that may have occurred. Recapture activities are the efforts directed toward recovering improper payments. The Circular defines a payment recapture audit as "a review and analysis" of records, supporting documentation, and other information supporting payments that is specifically designed to identify overpayments.

BBG implemented a program of internal control to prevent, detect, and recapture improper payments. Specifically, BBG had policies and procedures for prepayment reviews to prevent improper payments, post-payment reviews to detect improper payments, and recapture audits to recover improper payments. In addition, BBG analyzed the improper payments identified through normal operations and took action to recover those payments.

Prepayment Reviews

BBG's Manual of Operations and Administration requires prepayment reviews and documents the procedures to prevent improper payments. For vendor payments, the Manual requires, among other things, that the program office receiving the goods or services stamp the invoice to certify receipt. The program office administrative officer must then certify funds availability, the obligation document number, the obligation line number, the dollar amount, and the receiving official's signature and phone number.

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The Manual requires that the payment office audit the invoice “to ensure that there is a valid obligation for the payment, it is a proper invoice, the required invoice stamp is completed and signed, and supporting documentation is attached to the invoice.” Invoices with missing elements must be returned to the administrative officer. According to the Manual, the payment office enters the invoice and appropriate accounting data into the financial management system and verifies the availability of funds. The certifying officer verifies that the data has been correctly keyed into the financial management system by comparing the invoice with the financial management system data and supporting documentation.

The Manual requires that payment be made only for original invoices. If the original invoice is lost, a copy marked “Duplicate Original” may be used when supported by an administrative approval on the documents. Vouchers, voucher schedules, and supporting documentation must be marked clearly to prevent duplicate processing. The approving official must attach a full explanation of the circumstances surrounding the loss or destruction of the original voucher or invoice to the duplicate voucher.

The Manual also contains policies and procedures for grant payments. Specifically, BBG's Office of General Counsel reviews and clears the annual grant agreement. The Chief Financial Officer reviews and approves the grantee's annual financial plan, which must be submitted with the grantee's monthly payment request. The budget office enters, into the financial management system, an annual funding level based on the grantee's approved annual program plan. The certifying officer obligates grant funding for each grantee based on the signed grant agreement. The grants analyst reviews monthly funding requests submitted by the grantee against the approved financial plan. The certifying officer prepares the payment request, which must be signed by BBG's Executive Director. The administrative officer is required to maintain monthly records of all grant payments, and the budget analyst tracks monthly grant payments against the financial plan.

Post-Payment Reviews

Since OIG's 2012 report, OFO has developed, documented, and implemented post-payment review policies and procedures to identify improper payments and to evaluate its controls to prevent improper payments. According to the procedures, OFO will select a random sample of payments with an emphasis on larger dollar amounts. Budget Division staff will review the selected payments to determine, among other things, that the appropriate approvals were obtained, the amount paid was the correct amount, and the payment was not a duplicate payment.

OFO performed a post-payment review of BBG's FY 2012 domestic payments. Specifically, OFO tested a sample of 100 payments—50 payments made during the first three quarters of FY 2012 and another 50 payments made during the fourth quarter of FY 2012. For each sample, payments were grouped into two primary categories, Domestic Payments and Grant Payments, with emphasis given to dollar amount. In total for both samples, OFO randomly selected 80 payments—40 Domestic Payments and 40 Grant Payments. In addition to this random sample of 80, OFO judgmentally sampled an additional 20 payments to ensure coverage

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of high dollar or unusual payments that were not randomly selected. The 100 payments sampled, amounting to \$140,175,465, represented approximately 34 percent of the universe of payments of \$409,943,243. No improper payments were identified during these post-payment reviews.

Recapture Audits

In 2012, BBG contracted with an external firm to provide recapture audit services. According to the Statement of Work for the contract, a recapture audit is to be performed on all payments to determine whether improper payments were made. The objectives of the audit are to identify payment errors attributable to overpayments and collection of overpayments, to define the reasons for overpayments, to provide recommendations to prevent future overpayments, and to provide documentation to bring BBG into compliance with IPIA and resolve existing audit findings.

The recapture audit will cover both the domestic payments processed by BBG and the overseas payments processed by the Department of State on BBG's behalf. The base year recapture audit period covers payments made between October 1, 2009, and June 30, 2013, with the initial focus on FY 2012 payments. The Statement of Work includes three option years to cover payments made from July 1, 2013, through June 30, 2016.

As part of the recapture audit, and in conjunction with the FY 2012 improper payments risk assessment, the contractor reviewed 33 payments, amounting to \$205,516,067, which represented all payments made to two BBG grantees: MBN and RFE/RL. The contractor did not identify any improper payments.

Analysis of Improper Payments Identified

OMB Circular A-123, Appendix C, states that all agencies are required to establish annual targets for their payment recapture audit programs. The targets must be based on the rate of recovery. Agencies "shall strive to achieve annual recapture targets of at least 85 percent." BBG established a recovery rate target for improper payments of 95 percent.

Although BBG did not identify any improper payments through its post-payment review or recapture audit processes, BBG learned of 22 improper payments—21 overpayments amounting to \$1,241,909 and one underpayment of \$310—during FY 2012. These improper payments were reported by vendors or identified during normal operations.

OFO analyzed each of the 22 improper payments to identify the program and the root cause of the improper payment. Of the 22 improper payments, nine were duplicate payments resulting from, among other things, illegible invoice numbers. Eleven payments were made to the wrong vendor, and two payments were made in incorrect amounts in many cases because information was entered into the financial management system incorrectly. The program with the majority of the improper payments was VOA, which had 13 improper payments, amounting to \$1,187,013. This amount represented less than one percent of VOA's FY 2012 outlays of \$173,331,266 and was well below the improper payment error rate of 5.8 percent required for

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VOA to have significant improper payments as defined by OMB Circular A-123, Appendix C. At the time of this audit, BBG had recovered about \$1,240,921 of the \$1,241,909 in overpayments, which represents a recovery rate of 99.92 percent.

OIG's 2012 report (AUD/IB-12-32) on BBG's compliance with IPIA included a recommendation relating to BBG's payment recapture audit program as follows:

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.*

Based on the actions that BBG has taken since the 2012 report, OIG is closing Recommendation 2 upon issuance of this report.

Finding C. Required Improper Payments Information Was Reported

To comply with IPIA, agencies must publish an annual financial statement for the most recent fiscal year and post that report, with the information on improper payments required by OMB, on the agency's Web site. 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, Revised, *Financial Reporting Requirements*.

BBG disclosed the required improper payments information in its FY 2012 PAR. Specifically, BBG published an FY 2012 PAR and posted that report on its Web site. 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 described its payment recapture audit program efforts and completed the required payment recapture audit tables. BBG had also developed procedures for its reporting process to ensure its continued compliance with IPIA reporting requirements.

OIG's 2012 report (AUD/IB-12-32) on BBG's compliance with IPIA included a recommendation relating to BBG's improper payments reporting as follows:

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.*

Based on the actions that BBG has taken since the 2012 report, OIG is closing Recommendation 3 upon issuance of this report.

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 January to February 2013 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, Government Accountability Office reports, Office of Management and Budget 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 evaluated whether BBG had conducted a risk assessment for significant programs; evaluated BBG's controls for preventing, detecting, and recapturing improper payments; and determined whether BBG had disclosed the required improper payments information in its FY 2012 Performance and Accountability Report (PAR). To accomplish these objectives, OIG interviewed BBG officials to gain an understanding of its processes for performing its risk assessment, identifying improper payments, and reporting improper payments information. OIG 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 assessments and payment reviews that were performed and reviewed the improper payments information disclosed in the FY 2012 PAR.

¹ Pub. L. No. 111-204.

² Pub. L. No. 107-300.

Work Related to Internal Controls

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

Use of Computer-Processed Data

OIG obtained computer processed data (that is, 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, however, did not perform tests to validate the spreadsheet amounts because such testing was not necessary to accomplish the audit objectives.

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