



OFFICE OF INSPECTOR GENERAL



DEPARTMENT OF THE INTERIOR

RECOVERY OVERSIGHT ADVISORY

A Critical Point Evaluation Product

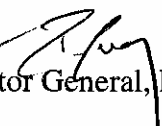


**RECOVERY OVERSIGHT OFFICE**

Washington, DC 20240

April 1, 2009

To: Chris Henderson
Department Recovery Act Coordinator

From: Robert A. Knox 
Assistant Inspector General, Recovery Oversight

Subject: Recovery Oversight Advisory – Departmental Risk Assessments of Recovery Act Activities (ROO-ROA-MOA-9002-2009)

Congress provided us with funding to oversee and ensure accountability of the \$3 billion appropriated to the Department of the Interior (Department) in the American Recovery and Reinvestment Act (Recovery Act or Act). To help safeguard these taxpayer dollars, we will focus on: preventing fraud, waste, and abuse of recovery and reinvestment dollars; early detection to reduce the impact of such misuse when it does occur; and ensuring transparency in our oversight efforts. In a spirit of collaboration with the Department as it implements the massive programs envisioned under the Act, this advisory provides input into the Department's risk assessment of activities performed under the Recovery Act.

With the requirement that the \$3 billion be obligated by September 30, 2010, the Department is inherently at risk of waste, fraud and abuse. Risk management is one strategy the Department can use to focus its efforts on high-risk areas, and it is also a strategy mandated by OMB. The Department is taking steps to improve its risk management planning. We are providing observations that could help the Department to further refine its risk-management approach.

Background

The "Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009" (OMB Memorandum M-09-10), section 3.7, directs Federal agencies to identify, prioritize, and mitigate agency/program-specific risks. The Department contracted with PricewaterhouseCoopers (PWC) to create a risk rating instrument to assess the risk of various units within the Department. The Department can apply the risk rating instrument at the entity-level, bureau-level, or program-level. In accordance with OMB Memorandum M-09-10, section 5.4, which requires the Inspectors General to consult with the agencies about risk assessments, we reviewed the PWC risk rating instrument to provide feedback on the effectiveness of the instrument.

Results of Review

The PWC risk rating instrument has strengths that will help the Department's risk management activities. The PWC instrument contains a questionnaire for each of the operational risk categories: program risk; organizational priorities; performance; reporting requirements; budget; compliance; transparency; environmental; finance; human capital; information

technology; procurement; and safety and security. Producing risk ratings for each operational category allows the Department to focus its oversight efforts on the riskiest areas in a bureau instead of an entire bureau. For example, a program such as the human capital area in the Division of Forestry, Wildland Fire Management in the Bureau of Indian Affairs may be given a high risk rating. In such a case, the Department could increase its monitoring of human capital in that one Division instead of the entire Bureau. Outsourcing the development of the risk rating instrument also allowed for a more objective view of the Department's risk areas and help to ensure it was unbiased toward the various constituencies within the Department.

We have, however, identified an area for improvement to enhance the instrument's effectiveness. The reviewer can answer each question on a sliding scale from "Strongly Agree," to "Strongly Disagree." These answers reduce the objectivity of the instrument, leaving the answers (and ultimately the risk rating) to the reviewer's judgment and subjectivity, thereby diminishing the reliability of the results. Examples of questions with more data-driven answers include:

- How many employees are involved in the process or programs?
- What is the employee turnover percentage for this office or program?
- What is the average number of years worked at the Department for all persons in the office or program?
- What is the average number of internal control reviews (performed internally, and/or by the Government Accountability Office and OIG) per office or program?
- What is the average number of findings (issued by KPMG, GAO, OIG) compared to total dollars per program?
- What are the employee satisfaction rates?

Incorporating more fact-based questions into the risk assessment would force more objective responses, thereby reducing the chances for manipulation of the data and outcome.

We also note the importance of *how* the instruments are completed and *by whom*. There is room to make errors in completing the instrument and to manipulate the outcome in the instrument, even with more fact-based questions. The program risk assessments should therefore be completed by a staff expert and reviewed by a knowledgeable manager. A simple review could also be performed by a third party. Accurately completing the questionnaire and verifying information could lessen the error and manipulation of the results.

Additionally, particularly for Recovery Act purposes, it is important to understand the risk across the Bureaus and in the Department. A team or individual should be designated to review, comment, and report on established risk across the Department to the Recovery Act Coordinator. Such reviews and reports can be used to compare the progress of each Bureau and hold them accountable for performance under the Act. The team should be familiar with the risk assessment instruments that are utilized to establish risk level, but should be independent from the use of the risk instrument and the assignments of risk ratings.

Finally, we note that the Department can use the instrument not only for Recovery Act Oversight, but also other programs and activities for which risk management is relevant.

We do not require an official response to this memorandum. Please feel free to contact me at (202) 531-6231 or robert_knox@doioig.gov if you have any questions.

cc: Pamela K. Haze, Acting Assistant Secretary – Policy, Management, and Budget