



OFFICE OF INSPECTOR GENERAL



DEPARTMENT OF THE INTERIOR

RECOVERY OVERSIGHT ADVISORY

A Critical Point Evaluation Product



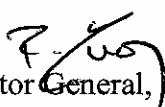


RECOVERY OVERSIGHT OFFICE

Washington, DC 20240

April 8, 2009

To: Chris Henderson
Department Recovery Act Coordinator

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

Subject: Recovery Oversight Advisory – Risk Assessments of Recovery Act Recipients
(ROO-ROA-MOA-9003-2009)

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 assessments of non-federal recipients awarded funding under the Department's Recovery Act programs.

It is our understanding that the Department intends to award over \$1 billion (nearly a third) of the Department's Recovery Act funding through grants and other awarding instruments such as cooperative agreements. Assessing the risk of applicants for and recipients of funding under the Recovery Act can assist the Department in fulfilling its obligations under the Recovery Act. It can help to prevent the Department from making awards to higher-risk recipients, for example, and to ensure recipients are held accountable for activities performed under the Recovery Act. We offer observations that can help the Department to enhance the effectiveness of oversight.

Background

The "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009" (issued April 3, 2009), sections 3.11 and 3.12, requires agencies to identify, prioritize, and mitigate implementation risks associated with the Recovery Act that are specific to the agency and programs. Agencies should focus on those risks with the highest probability of occurrence and the greatest impact if not mitigated. The Implementation Guidance, section 5.4, further mandates the use of risk assessments at the recipient program level by requiring agencies to use appropriate internal control assessments to assess the risk of program waste, fraud, and abuse.

Issue

Programs funded under the Recovery Act inherently carry greater risk than non-Recovery Act programs due to expedited awarding timeframes, large dollar values, and extensive reporting requirements. While the OMB Implementation Guidance provides direction for assessing overall

program risk, risk assessments performed at the recipient level could enhance the Department's transparency and accountability framework, reduce the likelihood of making awards to high-risk entities, and help to prioritize monitoring efforts. The Department should consider developing a risk assessment instrument to perform in both the pre-award phase and throughout the recipient performance period.

If the Department develops an instrument for pre-award risk assessments, the Department should consider the risk factors identified in the OMB Implementation Guidance, section 3.11, as well as agency-specific risk factors. The instrument should include attributes such as whether the applicant is suspended or debarred—to ensure awarding officials check this information, the applicant's audit history, recurrence of audit findings, and the status of corrective action plans. The pre-award risk assessment instrument could also include an internal control questionnaire, which allows users to assess the applicant's administration and management systems. The pre-award risk assessment can assist Department and bureau officials to evaluate whether to award funding to an entity, determining the appropriate funding structure, determining the award amount, and identifying recipients that could require more extensive monitoring and oversight. For example, recipients without a long history of receiving federal funds might require more extensive monitoring.

If the Department and/or Bureaus complete risk assessments on recipients throughout the award period—at least annually—it could help them to focus their monitoring efforts. When designing the instrument, the Department should consider the risk factors identified in the OMB Implementation Guidance, section 3.11, as well as agency-specific risk factors. The instrument should include some of the attributes cited above (i.e., applicant's audit history, recurrence of audit findings, and the status of corrective action plans) in addition to attributes such as recipient complexity and timeliness of single audit submissions. Certain “triggering events,” such as changes in the recipient's management structure or fraud/abuse allegations, could signal to the office responsible for oversight a need for re-assessing the risk level. The Department should align the extent of recipient monitoring with the final risk ratings. The recipient monitoring risk assessment instrument should assist awarding officials in determining the types of monitoring procedures that would be most effective for different recipients.

With both risk assessments, to reduce user manipulation of the risk assessment inputs, questions should require objective and quantifiable answers that can be statistically verified.

We do not require an official response to this advisory, but we will post it on our website (www.doioig.gov) and Recovery.gov. Information contained in this advisory may also be included in our semi-annual reports to Congress. Please feel free to contact me if you have any questions.

cc: Acting Assistant Secretary – Policy, Management and Budget
Director, Office of Financial Management
Departmental GAO/OIG Audit Liaison
Audit Liaison, Office of the Secretary

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