# Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) increases agency payment recapture efforts by expanding the types of payments to be reviewed and requires agencies to conduct payment recapture audits for each program and activity that expends $1 million or more annually if conducting such audits would be cost-effective. In addition, agencies continue to be required to review their programs and activities annually to identify those susceptible to significant improper payments. Significant improper payments is defined as gross annual improper payments in a program exceeding both the threshold of 2.5 percent and $10 million of total program funding, or $100 million in improper payments regardless of the improper payment percentage.

GSA provides the following improper payment reporting details in accordance with IPERA and OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, and OMB Circular A-136, *Financial Reporting Requirements*.

### 1. Risk Assessment

In accordance with IPERA and OMB Circular A-123, Appendix C, GSA conducted a risk assessment of all programs for Fiscal Year (FY) 2011 payments. The goal of the risk assessment was to re-baseline each program to determine the susceptibility of GSA programs to improper payments and to use the results of the risk assessment to identify highly susceptible programs for FY 2013 reporting (i.e., estimation of improper payments of highly susceptible programs).

The last risk assessment performed was in FY 2009 for FY 2008 disbursements. The FY 2009 risk assessment was conducted using a quantitative approach using statistical sampling as well as consideration of other reviews. Error rates were evaluated considering the results of the quantitative approach, the results of the high-risk review areas performed globally, and with consideration of the results of the GSA post payment reviews and the GSA Recovery Audit. Based on the FY 2009 risk assessment, GSA identified no high risk programs.

In FY 2012, GSA applied a systematic approach to executing the risk assessment based on knowledge of the complexities, risk profiles, and business processes associated with each of the 12 programs. This approach entailed both quantitative and qualitative assessment methods.

#### *Quantitative Risk Assessment Approach:*

GSA applied a quantitative risk assessment approach for 10 of 12 programs using statistical sampling of FY 2011 payments. Test plans were developed to focus the review on relevant areas and attributes that were most susceptible to improper payments. The testing results for each program were extrapolated to the payment population to estimate the improper payment error rate associated with each program. This error rate was used to identify programs susceptible to improper payments per the IPERA definition. Specific risk factors reviewed are consistent with A-123, Appendix C objectives, which include testing that:

- payments were issued to eligible vendors or contractors;
- payments were used to purchase eligible goods and/or services;
- goods and/or services purchased were received;
- payments were not duplicate payments; and,
- payments were for the appropriate dollar amount.

### *Qualitative Risk Assessment Approach:*

GSA performed qualitative assessments for two of the 12 programs using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework and evaluating the following risk factors:

- Operating Environment – Existence of factors which necessitate or allow for loosening of financial controls; any known instances of fraud.
- Payment Processing Controls – Management's implementation of internal controls over payment processes including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes, and whether or not effective compensating controls are present.
- Quality of Internal Monitoring Controls – Periodic internal program reviews to determine if payments are made properly; strength of documentation requirements and standards to support testing of design and operating effectiveness for key payment controls.
- Human Capital – Experience, training, and size of payment staff; ability of staff to handle peak payment requirements; level of management oversight, and monitoring against fraudulent activity.

GSA reviewed additional risk factors including:

- Complexity of Program – Program complexity in respect to laws and regulations, determining the correct payment amount, and the length of the program.
- Nature of Payments – Volume of transactions in respect to the number of invoices, as well as, contract modifications.
- Quantitative Risk – Based on the total payments made by the program during the fiscal year and materiality of the payments to the overall program.

These seven risk factors are consistent with OMB Circular A-123, Appendix C risk factors that must be addressed at a minimum for the qualitative assessment.

### *Conclusions*

Based on the results of the risk assessment, GSA concluded the following:

- There are two high risk programs, which include Rental of Space and Purchase Cards;
- There are three high risk activities, which include Building Operations and Other Payments - Utilities,[1] Integrated Technology Services (ITS) - Wide Area Network (WAN)[2] ; and Other Sensitive Payments[3] , which consist of discretionary costs across all GSA programs.

*1 Utilities is an activity under major program: Building Operations and Other Payments.*
*2 Wide Area Network is an activity under major program: Integrated Technology Services.*
*3 Other Sensitive Payments are discretionary costs that are determined to be high risk to the agency throughout all programs, which include conferences, speaking honoraria, gifts, training, and membership fees.*

### 2. Statistical Sampling

GSA will report on the statistical sampling process when programs and activities susceptible to significant improper payments are measured in FY 2013.

### 3. Corrective Actions

GSA will report on corrective actions to reduce improper payments for each root cause identified when programs susceptible to improper payments are measured in FY 2013. GSA has begun designing additional internal controls to reduce improper payment rates in the future. These corrective actions are currently in-process and GSA will track these action plans for future reporting.

### 4. Improper Payment Reporting

GSA rebaselined the risk assessment for all programs in FY 2012 using both quantitative and qualitative methods. The risk assessment identified two programs (Rental of Space and Purchase Cards) and three activities (Building Operations - Utilities, Integrated Technology Services - Wide Area Network, and Other Sensitive Payments) as high risk.

Measurement of improper payments for these high risk programs and activities will be completed and Table 1, *Improper Payment Reduction Outlook*, will be reported in FY 2013. The measurement process includes obtaining approval from OMB on GSA's statistical sampling methodology, executing test plans, and quantifying the improper payment dollars and percentages in compliance with A-123, Appendix C.

GSA's measurement baseline year is FY 2013; therefore, no prior year data is available for FY 2012 reporting.

### 5. Recapture of Improper Payments Reporting

In FY 2012, GSA considered all programs and activities that expended $1 million or more annually for payment recapture audits. However, GSA focused on reviewing the Rental of Space program (previously reported as Leasing) based on improper payment risk identified from previous years. Furthermore, GSA initiated payment recapture audit efforts for the regional telecommunication and utilities contracts; however, these two audits are on-going and no improper claims were identified as of September 30. Transportation program payments were excluded from the Payment Recapture Audit Program because they are subject to audits directed by 31 U.S.C. 3726. GSA establishes claims in accordance with the Debt Collection Improvement Act. Unsatisfied debt is referred to the Treasury Offset Program for further collection efforts.

In FY 2011, the GSA Office of Inspector General (OIG) determined that GSA was compliant with IPERA; however, improvements were needed. This included redefining and reporting identified and recovered amounts resulting from the payment recapture audit. In accordance with OIG recommendations, GSA changed the reporting methodology for identified and recovered from accrual basis to cash basis reporting. This resulted in a lower recovery rate for the current fiscal year than the established target as reported in the FY 2011 Agency Financial Report. In addition, cumulative adjustments were made to prior year reported dollars to separate identified and recovered amounts between the payment recapture audit and GSA discovered improper payments.

Current and prior-year results of the Payment Recapture Audit program are presented in the table below:

### Table 2 Payment Recapture Audit Reporting

| Program or Activity | Type of Payment (contract, grant, benefit, loan or other) | Amount Subject to Review for CY Reporting | Actual Amount Reviewed and Reported (CY) | Amount Identified for Recovery (CY) | Amount Recovered (CY) | % of Amount Recovered out of Amount Identified (CY) | Amount Outstanding (CY) | % of Amount Outstanding out of Amount Identified | Amount Determined Not to be Collectable (CY) | % of Amount Determined Not to be Collectable out of Amount Identified (CY) | Amounts Identified for Recovery (PYs) | Amounts Recovered (PYs) | Cumulative Amounts Identified for Recovery (CY + PYs) | Cumulative Amounts Recovered (CY + PYs) | Cumulative Amounts Outstanding (CY + PYs) | Cumulative Amounts Determined Not to be Collectable (CY + PYs) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rental of Space | Contract | $7,182,067,182 | $7,182,067,182 | $14,604,423 | $3,738,518 | 26% | $10,830,949 | 74% | $34,956 | 0.2% | $94,258,369 | $71,392,213 | $108,862,792 | $75,130,730 | $33,065,973 | $666,088 |

GSA is required to establish annual targets to drive annual payment recovery performance. In FY 2011, GSA reported a recovery target of 83% for FY 2012; however, based on changes to reporting methodology GSA did not reach its annual target. Furthermore, the existing collection process poses an inherent challenge in recovering the total amount of identified claims in the current FY. GSA recognizes these challenges and is in the process of developing an action plan to actively work with business managers to improve on the recovery rate for FY 2013.

### Table 3 Payment Recapture Audit Targets

| Program or Activity | Type of Payment (contract, grant, benefit, loan or other) | CY | CY | CY | CY + 1 | CY +2 | CY + 3 |
|---|---|---|---|---|---|---|---|
| | | Amount Identified | Amount Recovered | Recovery Rate (Amount Recovered/Amount Identified) | Recovery Rate Target | Recovery Rate Target | Recovery Rate Target |
| Rental of Space | Contract | $14,604,423 | $3,738,518 | 26% | 50% | 55% | 60% |

Table 4 below provides the aging schedule of the amount of outstanding overpayments identified through the payment recapture audit (i.e., overpayments that have been identified but not recovered) in FY 2012. GSA starts aging an overpayment when the overpayment is detected, that is, certified by the program office and approved by the Payment Recapture Program Manager.

### Table 4 Aging of Outstanding Overpayments

| Program or Activity | Type of Payment (contract, grant, benefit, loan or other) | CY Amount Outstanding | CY Amount Outstanding | CY Amount Outstanding |
|---|---|---|---|---|
| | | (0 - 6 months) | (6 months to 1 year) | (over 1 year) |
| Rental of Space | Contract | $1,363,060 | $9,467,890 | – |

GSA's payment recapture audit identified claims related to the rental of space program. This program is funded through the Federal Buildings Fund, a revolving fund. Therefore, funds recaptured are credited back to their original purpose. Table 5 provides a summary of GSA's disposition of funds.

***Table 5 Disposition of Recaptured Funds***

| Program or Activity | Type of Payment (contract, grant, benefit, loan or other) | Agency Expense to Administer the Program | Payment Recapture Auditor Fees | Financial Management Improvement Activities | Original Purpose | Office of Inspector General | Returned to Treasury |
|---|---|---|---|---|---|---|---|
| Rental of Space | Contract | – | – | – | $3,738,518 | – | – |

GSA identifies and recovers improper payments through other post-payment reviews performed by the agency. A summary of this effort is provided in Table 6.

***Table 6 Overpayments Recaptured Outside of Payment Recapture Audits***

| Source of Recovery | Amount Identified (CY) | Amount Recovered (CY) | Amount Identified (FY) | Amount Recovered (PY) | Cumulative Amount Identified (CY + PYs) | Cumulative Amount Recovered (CY + PYs) |
|---|---|---|---|---|---|---|
| GSA Identified[1] | $43,329,100 | $37,389,991 | N/A | N/A | N/A | N/A |

## 6. Accountability

GSA has identified internal control deficiencies that contributed to improper payment occurrences. GSA is currently in the process of designing new controls and will evaluate the new controls to ensure they are operating effectively. The OCFO will be assisting program offices to develop and track action steps with milestones to remediate these internal control deficiencies in FY 2013.

## 7. Agency Information Systems and Other Infrastructure

GSA has sufficient internal controls, human capital, and information systems and other infrastructure needed to reduce improper payments to the levels the agency has targeted. Through the IPERA risk assessment and payment recapture efforts, GSA identified internal control issues that contributed to improper payments and new internal controls are being designed and will be evaluated to determine operating effectiveness.

## 8. Barriers

GSA has not identified any statutory or regulatory barriers, which may limit GSA's ability to implement corrective actions to reduce improper payments.

## 9. Additional Comments

GSA continues to highly prioritize its improper payment reduction and recovery efforts. Process improvements have been made since prior year reporting and GSA continues to make additional improvements as issues are identified. Business process changes have been proposed and new controls identified to prevent further occurrences of known improper payments.

[1] *GSA Identified are self-reported overpayments.*