



OFFICE OF THE SECRETARY

FY 2013 Compliance with Improper Payment Requirements

FINAL REPORT NO. OIG-14-016-I
APRIL 15, 2014

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation

FOR PUBLIC RELEASE





UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

April 15, 2014

INFORMATION MEMORANDUM FOR SECRETARY PRITZKER

A handwritten signature in black ink that reads "Todd J. Zinser".

FROM: Todd J. Zinser

SUBJECT: *FY 2013 Compliance with Improper Payment Requirements* Final Report No. OIG-14-016-I

This memorandum provides our final report on FY 2013 improper payment reporting. We conducted this review to comply with the requirements of the Improper Payments Information Act of 2002 (IPIA)—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—and Office of Management and Budget (OMB) Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments.”

Our review focused on assessing whether the Department’s improper payment reporting in Appendix C of its FY 2013 *Agency Financial Report* complied with all applicable reporting requirements. We also evaluated the accuracy and completeness of the Department’s reporting, as well as its performance in reducing and recapturing improper payments.

Overall, we found that the Department met the applicable OMB criteria for compliance with IPIA for FY 2013. However, we determined that the Department could further enhance follow-up practices related to bureau reporting of quarterly improper payment data. Our report contains one recommendation to address this condition. In accordance with Department Administrative Order 213-5, within 60 days of the date of this memorandum, we request an action plan that responds to our recommendation.

We are also issuing a copy of this report to the Senate Committee on Homeland Security and Governmental Affairs; House Committee on Oversight and Government Reform; Comptroller General of the United States; Director, OMB; and Acting Controller, OMB.



We would like to thank the Department's staff and management for its cooperation during our review. Please contact me at (202) 482-4661 if you would like to discuss the results of this review.

Attachment



Report In Brief

APRIL 15, 2014

Background

The **Improper Payments Information Act of 2002 (IPIA)** requires federal agencies to (1) identify programs susceptible to improper payments; (2) estimate improper payment amounts for such programs; and (3) report these estimates, along with actions taken to reduce improper payments for programs with estimates that exceed \$10 million in improper payments. The **Improper Payments Elimination and Recovery Act of 2010** and **Improper Payments Elimination and Recovery Improvement Act of 2012** amended IPIA by expanding on the previous requirements and broadening recovery requirements for overpayments.

Broadly defined, *improper payments* are those the federal government has made in the wrong amount, to the wrong entity, or for the wrong reason. Federal agencies reported that the improper payment rate was 3.53 percent for fiscal year (FY) 2013, a decrease from the prior year's rate of 4.35 percent.

In FY 2013 the Department reported \$57 thousand in improper payments from recapture audits and \$9.2 million in overpayments which were identified through its ongoing improper payment monitoring and minimization efforts.

Why We Did This Review

We initiated this engagement to review the Department's compliance with IPIA—as required by the Office of Management and Budget's (OMB's) government-wide implementation guidance, Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments." Specifically, we (1) assessed whether the Department complied with all applicable reporting requirements and (2) evaluated the accuracy and completeness of its reporting as well as its performance in reducing and recapturing improper payments.

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OIG-14-016-I

WHAT WE FOUND

To comply with IPIA and OMB Circular A-123, Appendix C, the Department implemented procedures in FY 2013 to detect and prevent improper payments—conducting program risk assessments, reviewing a sample of FY 2013 disbursements, performing payment recapture audits, and conducting routine monitoring procedures. These assessments revealed no programs or activities susceptible to significant risk of improper payments.

In addition, the Department's review did not identify any significant improper payments among its approximately \$13.7 billion in outlays. The Department's routine monitoring efforts in FY 2013 identified almost \$9.2 million in overpayments, of which more than \$5 million was confirmed by the Department as recaptured. Based on these activities, we found the Department met the applicable OMB criteria for compliance with IPIA. The Department has also implemented corrective actions to address the finding identified in our March 2013 report on improper payment practices and reporting. A summary of the Department's relevant FY 2013 practices and results appear in the U.S. Department of Commerce FY 2013 *Agency Financial Report*.

While the Department met the applicable compliance requirements for FY 2013, we determined that the Department could further improve its improper payment practices related to bureau reporting of quarterly improper payment data. For FY 2013, we found that the Department did not follow up with the bureaus to determine whether their quarterly improper payment data included any amounts related to the unresolved audits identified in prior years. As a result, we believe there is a risk that the Department should have reported additional improper payment amounts in FY 2013.

WHAT WE RECOMMEND

We recommend that the Deputy Chief Financial Officer and Director for Financial Management enhance the Department's processes to ensure that bureaus specifically provide, in their quarterly improper payment reporting, the status of unresolved audits identified in prior years and whether any improper payments were identified and recaptured upon final resolution.

Contents

Introduction 1

Objectives and Finding..... 2

 Improper Payment Elimination Practices Are Compliant with IPIA, But Further
 Improvement Is Needed 3

 Recommendation..... 4

Summary of Agency Response and OIG Comments..... 5

Appendix A: Objectives, Scope, and Methodology 6

Appendix B: Agency Response 7

*COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934*

Introduction

As required by the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments"—government-wide guidance on detecting and preventing improper payments—we initiated this review to determine whether the Department complied with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

Broadly defined, *improper payments* are those the federal government has made in the wrong amount, to the wrong entity, or for the wrong reason.¹ Federal agencies reported that the improper payment rate was 3.53 percent for fiscal year (FY) 2013, a decrease from the prior year's rate of 4.35 percent.

Congress enacted IPIA to encourage agency management to plan and take actions to reduce such payments. It requires federal agencies to (1) identify programs that were susceptible to improper payments, (2) estimate improper payment amounts for such programs, and (3) report these estimates along with actions taken to reduce improper payments for programs with estimates that exceed \$10 million. IPERA and IPERIA amended IPIA² by expanding on these previous requirements³ and broadening recovery requirements for overpayments.

During FY 2013, the Department made approximately \$13.7 billion in total outlays. As mandated by IPIA, the Department implemented various internal controls intended to detect and prevent significant improper payments. As a result, in FY 2013 the Department identified no programs and activities that may be susceptible to significant improper payments—and reported \$57 thousand in improper payments from recapture audits and \$9.2 million in overpayments which were identified through its ongoing improper payment monitoring and minimization efforts. A summary of the Department's FY 2013 improper payment practices and results appear in appendix C of the *U.S. Department of Commerce FY 2013 Agency Financial Report (AFR)*.

¹ According to IPERA, Public Law 111-204, §2(e), an *improper payment* is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, and other legally applicable requirements. It includes any payment (1) to an ineligible recipient, (2) for an ineligible good or service, (3) that is duplicate, (4) for a good or service not received, and (5) that does not account for credit for applicable discounts.

² From this point, unless otherwise indicated, the term *IPIA* will denote *IPIA, as amended by IPERA and IPERIA* throughout this report.

³ Beginning in FY 2013, IPERA defines *significant improper payments* as exceeding (1) 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year or (2) \$100 million. OMB further established additional requirements related to federal agency management accountability, recovery auditing, compliance determination through inspector general assessment, and sufficient internal controls related to improper payments. IPERIA adds additional reporting requirements, which agencies will implement based on OMB guidance that will be provided in FY 2014.

Objectives and Finding

Our review focused on the Department's efforts to calculate, disclose, reduce, and—when appropriate—recapture improper payments accurately, as required by OMB Circular A-123. Specifically, our objectives were to (1) assess whether the Department complied with all applicable reporting requirements and (2) evaluate the accuracy and completeness of its reporting as well as its performance in reducing and recapturing improper payments.

OMB Circular A-123⁴ outlines seven requirements for compliance with IPIA. Four of the requirements relate to programs and activities susceptible to significant improper payments. The Department is responsible for determining whether its programs and activities are susceptible to the risk of significant improper payments. In FY 2013, the Department did not identify any such programs or activities during its risk assessment process. Therefore, only three requirements are applicable to the Department in FY 2013. We found that the Department met these applicable OMB criteria for compliance with IPIA, as described in table I (below).

Table I: Improper Payment Requirements

Requirement	Compliance Requirement Met
Published the <i>AFR</i> and posted on agency Web site	Yes
Conducted program-specific risk assessments	Yes
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments in the <i>AFR</i>	Not Applicable (N/A) ^a
Published programmatic corrective action plans for all programs and activities susceptible to significant improper payments in the <i>AFR</i>	N/A ^a
Published and met annual reduction targets for each program assessed to be at risk and measured for all programs and activities susceptible to significant improper payments in the <i>AFR</i>	N/A ^a
Reported a gross improper payment rate of less than 10 percent for each program or activity for which a significant improper payment estimate was obtained and published in the <i>AFR</i>	N/A ^a
Reported information on its efforts to recapture improper payments in the <i>AFR</i>	Yes

Source: OIG analysis of Departmental data

^a The Department determined that it does not have any programs or activities susceptible to the risk of significant improper payments [i.e., exceeding either (a) 1.5 percent of program payments and \$10 million or (b) \$100 million]; therefore, this requirement is not applicable.

⁴ OMB Circular A-123, Appendix C, § II(A)(4).

Improper Payment Elimination Practices Are Compliant with IPIA, But Further Improvement Is Needed

To meet the requirements of IPIA and OMB Circular A-123, appendix C, the Department performed procedures in FY 2013 to detect and prevent improper payments, including

- Risk assessments of selected programs and activities.
- Evaluations of a sample of disbursements.⁵
- Engagement of a contractor to obtain the status of sustained disallowed costs for grants and other cooperative agreements and perform payment recapture audits of
 - closed and expired⁶ contracts and obligations of selected bureaus and
 - grants and other cooperative agreements for which the period of performance has expired.
- Routine monitoring procedures, such as post-payment reviews.
- Disclosure of required data in the FY 2013 *AFR*.
- Publication and Internet posting of the FY 2013 *AFR*.

In March 2013, the Department also developed an internal control plan for funds spent under the Disaster Relief Appropriations Act, 2013, for Hurricane Sandy recovery and other disaster related activities, because the Act specifies that programs and activities receiving such funds are deemed susceptible to significant improper payments. OMB requires agencies to produce and report, to the extent possible, improper payment estimates in the FY 2014 reporting period. To comply, the Department will develop a sampling plan to examine these funds and report an improper payment estimate in its FY 2014 *AFR*.

Each year, the Department evaluates a subset of its programs and activities based on a 3-year rotational schedule for conducting risk assessments. During the FY 2013 risk assessment process, the Department did not identify any programs or activities susceptible to significant improper payments. The Department reported these results in its FY 2013 *AFR*, along with information on its efforts to recapture improper payments. Based on these activities, we found that the Department met the applicable OMB criteria for compliance with IPIA.

In addition, the Department reported that it did not identify any significant problems with improper payments. Its review of FY 2013 disbursements did not identify any improper

⁵ The review, performed by the Office of Financial Management, included disbursements made between October 1, 2012, and June 30, 2013, which were equal to or greater than \$5,000. Not included in the review for FY 2013 were grants and other cooperative agreements, travel payments, bank/purchase cards, procurement vehicles with other federal agencies such as intragovernmental payments and collections, government bills of lading, loans, and gifts and bequests.

⁶ *Closed* contracts and obligations have completed the closeout process; *expired* refers to those for which the period of performance has ended, and last payment was made, but the closeout process has not been completed.

payments. The payment recapture audits found \$57 thousand in improper overpayments. Through the Department's routine monitoring efforts, it identified and reported approximately \$9.2 million in overpayments and \$5 million in recaptured improper payments in FY 2013.

Further, we determined that the Department made improvements to its improper payment practices in FY 2013 as a result of our work. In our March 2013 report on improper payment practices and reporting, we found that payments lacking sufficient documentation were not identified as improper payments. The Department implemented corrective actions to ensure that unsupported costs identified in audits and reviews of its programs and activities are reported annually as improper payments.

We believe that the Department can further enhance its improper payment practices. Bureaus are required to report improper payments data quarterly, including those identified through completed audits and reviews. For FY 2013, we found that the Department did not follow up with the bureaus to determine whether their quarterly improper payment data included any amounts related to the unresolved audits⁷ identified in prior years. As a result, we believe there is a risk that the Department should have reported additional improper payment amounts in FY 2013.

Recommendation

We recommend that the Deputy Chief Financial Officer and Director for Financial Management enhance the Department's processes to ensure that bureaus specifically provide, in their quarterly improper payment reporting, the status of unresolved audits identified in prior years and whether any improper payments were identified and recaptured upon final resolution.

⁷ These audits were unresolved due to appeals or ongoing negotiations.

Summary of Agency Response and OIG Comments

We reviewed the Department's response, included in appendix B, and considered the Department's comments in preparing the final report. Overall, the Department was pleased that our office found that the Department met the three applicable criteria for compliance with IPIA and agreed to implement our recommendation to enhance its processes. We look forward to reviewing the Department's corrective action plan.

Appendix A: Objectives, Scope, and Methodology

Our objectives were to (1) assess whether the Department complied with all applicable reporting requirements and (2) evaluate the accuracy and completeness of its reporting as well as its performance in reducing and recapturing improper payments. The scope of our review of the Department's compliance with IPIA included Departmental processes and practices for assessing and identifying programs and activities susceptible to improper payments, along with procedures in place to detect and prevent improper payments, during FY 2013.

To meet our objectives, we obtained an understanding of internal controls and practices by

- Communicating with officials in the Department's Office of Financial Management to gain an understanding of risk assessment, disbursement sampling, and improper payment recapture processes.
- Requesting, obtaining, and analyzing documents related to the FY 2013 risk assessment, disbursement sampling, and improper payment recapture processes—including relevant procedures, sampling results, and contractor and internal reports.
- Reviewing "Appendix C: Improper Payments Information Act (IPIA) of 2002, as Amended, Reporting Details" in the AFR.

We also reviewed the Department's compliance with applicable provisions of IPIA and OMB Circular A-123, appendix C.

We conducted our field work from February 2014 to March 2014 in Washington, DC. We performed this review under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated April 26, 2013. The review was conducted in accordance with the *Quality Standards for Inspection and Evaluation* (January 2012) issued by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

APR 07 2014

MEMORANDUM FOR Ann C. Eilers
Principal Assistant Inspector General
for Audit and Evaluation

FROM: Lisa Casias *Lisa Casias*
Deputy Chief Financial Officer and
Director for Financial Management

SUBJECT: Comments on Draft Report Entitled, "*Office of the Secretary FY 2013
Compliance with Improper Payment Requirements*"

This memorandum responds to the draft report from the Office of Inspector General (OIG), entitled "Office of the Secretary FY 2013 Compliance with Improper Payment Requirements," issued on March 31, 2014. I am pleased the draft report states that the Department has met the three applicable Office of Management and Budget Circular No. A-123, Appendix C criteria for compliance with the Improper Payments Information Act of 2002, as amended.

We plan to implement the recommendation on page four that notes the Department should enhance its processes to ensure that bureaus specifically provide my office the status of unresolved audits identified in prior years and whether any improper payments were identified and recaptured upon final resolution.

Thank you for the opportunity to provide comments. If you have any questions or comments, please feel free to call me at (202) 482-1207.

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