



Report In Brief

MARCH 15, 2012

Background

Improper payments are those made by the federal government in the wrong amount, to the wrong entity, or for the wrong reason. Federal agencies reported estimated improper payments of more than \$115 billion (approximately 5 percent of outlays) for FY 2011.

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** (IPERA) amended IPIA by expanding on the previous requirements for identifying, estimating, and reporting on programs and activities which were vulnerable to significant improper payments and broadening recovery requirements for overpayments.

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 reporting requirements and (2) evaluated the accuracy and completeness of its reporting as well as its performance in reducing and recapturing improper payments.

OFFICE OF THE SECRETARY

FY 2011 Compliance with Improper Payment Requirements

OIG-12-022-1

WHAT WE FOUND

To comply with IPIA and OMB Circular A-123, Appendix C, the Department implemented procedures in FY 2011 to detect and prevent improper payments—conducting program risk assessments, reviewing a sample of FY 2011 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. The Department's routine monitoring efforts identified \$3.5 million in overpayments in FY 2011, most of which it recaptured. Based on these activities, we found the Department to be in compliance. The Department has also completed implementation of corrective actions to address the recommendations issued in our March 2011 report on improper payment practices and reporting. A summary of the Department's relevant FY 2011 practices and results appear in appendix F of the U.S. Department of Commerce FY 2011 *Performance and Accountability Report (PAR)*.

While the Department was in compliance with IPIA requirements for FY 2011—and successfully addressed recommendations from our March 2011 report—we determined that the Department could improve improper payment implementation strategy related to:

- **Payment recapture audits.** In reviewing the Department's November 2011 contractor report on payment recapture audits, we noted that 6 of 34 grants reviewed at one bureau were closed several years after the last disbursement. Because the Department excludes grants and contracts not officially closed out from the Department's payment recapture audits, we believe there is a risk that the unaudited population contains improper payments that will proceed undetected until subjected to the closeout process.
- **Payments without sufficient documentation.** The Department's contractor—unable to obtain adequate documentation in a timely manner to determine whether erroneous payments were made for 3 of 4 grants for one smaller Department bureau and 13 of 19 grants for another similarly-sized bureau—could not reach a conclusion. OMB requires that payments made under these types of grants be considered improper payments. However, the Department did not report the payments made pursuant to these grants as improper in its *PAR*.

WHAT WE RECOMMEND

We recommend that the Department:

1. expand the scope of its review of grants and contracts to include those for which the period of performance ended and last payment was made, but for which the closeout process has not been completed; and
2. research items identified in payment recapture audits as lacking sufficient documentation, and report amounts in its annual *Performance and Accountability Report* when unable to discern propriety of payment.