

FY 2016 Compliance with Improper Payment Requirements

FINAL REPORT NO. OIG-17-025-I

MAY 12, 2017



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



May 12, 2017

INFORMATION MEMORANDUM FOR SECRETARY ROSS

A handwritten signature in black ink, appearing to read "D. Smith".

FROM: David Smith
Deputy Inspector General

SUBJECT: *FY 2016 Compliance with Improper Payment Requirements*
Final Report No. OIG-17-025-I

This memorandum provides our final report on fiscal year (FY) 2016 improper payment reporting. Our review objectives were to (1) assess whether the Department complied with all applicable improper payment requirements and (2) evaluate the accuracy and completeness of its reporting, as well as its performance in recapturing improper payments.

We found that, for FY 2016, the Department met the Office of Management and Budget (OMB) criteria for compliance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012. In addition, our evaluation of the Department's accuracy and completeness of its reporting revealed that the Department can improve the improper payment reporting in its annual *Agency Financial Report*, as it understated improper payment estimates for funds that the National Oceanic and Atmospheric Administration spent under the Disaster Relief Appropriations Act of 2013. We did not identify any findings related to the Department's FY 2016 payment recapture activities.

We have summarized the agency's response to our draft report, as well as included it as an appendix. This final report will appear on the OIG website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M). In accordance with Department Administrative Order 213-5, please submit to us—within 60 calendar days of this memorandum—an action plan that responds to the recommendation in this report.

As required by IPIA, as amended, we are also issuing a copy of this report to the U.S. Senate Committee on Homeland Security and Governmental Affairs; U.S. House Committee on Oversight and Government Reform; the Government Accountability Office; and 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.

Enclosure

cc: Lisa Casias, Deputy Assistant Secretary for Administration Performing
the Non-Exclusive Duties of the Chief Financial Officer and Assistant
Secretary for Administration
MaryAnn Mausser, Audit Liaison



Report in Brief

May 12, 2017

Background

The Improper Payments Information Act of 2002 (IPIA) requires federal agencies to (1) identify programs that may be susceptible to significant 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. The Improper Payments Elimination and Recovery Act of 2010 and Improper Payments Elimination and Recovery Improvement Act of 2012 amended IPIA by expanding on these previous requirements and broadening recovery requirements for overpayments.

Broadly defined, improper payments are those the federal government has made for the wrong amount, to the wrong entity, or for the wrong reason. In FY 2016 the Department reported \$4.8 million in overpayments, as well as \$5.4 million in recaptured overpayments identified through its ongoing improper payment monitoring, minimization, and payment recapture efforts.

Why We Did This Review

We initiated this engagement to review the Department's compliance with IPIA, as amended—as required by the Office of Management and Budget's (OMB's) government-wide implementation guidance, Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, appendix C, "Requirements for Effective Estimation and Remediation of Improper Payments." Our review objectives were to (1) assess whether the Department complied with all applicable improper payment requirements and (2) evaluate the accuracy and completeness of its reporting, as well as its performance in recapturing improper payments.

OFFICE OF THE SECRETARY

FY 2016 Compliance with Improper Payment Requirements

OIG-17-025-I

WHAT WE FOUND

Our review found that the Department met the OMB criteria for compliance with IPIA. To comply with IPIA, the Department must adhere to six requirements, four of which relate specifically to programs and activities susceptible to significant improper payments. The Department reported in its U.S. Department of Commerce FY 2016 *Agency Financial Report (AFR)* that programs and activities receiving funds under the Disaster Relief Appropriations Act of 2013 (Disaster Relief Appropriations Act) are susceptible to significant improper payments. Because the Department identified a program susceptible to significant improper payments during FY 2016, all of the OMB compliance requirements were applicable to the Department in FY 2016.

In addition, our evaluation of the Department's accuracy and completeness of its reporting, as well as its performance in recapturing improper payments, revealed that the Department can improve its AFR reporting, as it understated improper payment estimates for the funds NOAA received under the Disaster Relief Appropriations Act. We did not identify any findings related to the Department's FY 2016 payment recapture activities.

WHAT WE RECOMMEND

We recommend that the Deputy Chief Financial Officer and Director for Financial Management

1. develop a process to ensure that the sampling methodology and formulas in future statistical sampling and estimation plans are followed, in order to accurately calculate estimated improper payments for programs deemed susceptible to significant improper payments.

Contents

Introduction	1
Objectives, Finding, and Recommendation	3
I. Published Improper Payment Estimates Were Understated	4
Recommendation	5
Summary of Agency Response and OIG Comments	6
Appendix A: Objectives, Scope, and Methodology	7
Appendix B: Agency Response	8

*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 Enterprise Risk Management and Internal Control*, appendix C, "Requirements for Effective Estimation 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). We also reviewed whether the Department complied with applicable provisions of OMB Circular A-136 (revised October 2016), and OMB Circular A-123, appendix C, as amended by OMB Memorandum M-15-02.

Broadly defined, *improper payments* are those the federal government has made for the wrong amount, to the wrong entity, or for the wrong reason.¹ Congress enacted IPIA to require agency management to plan and take actions to reduce such payments. It requires federal agencies to (1) identify programs that may be susceptible to significant 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.

To meet the requirements of IPIA and OMB Circular A-123, appendix C, the Department performed procedures to detect and prevent improper payments, including risk assessments of selected programs and activities; payment recapture audits; statistical sampling of program disbursements; and routine monitoring and minimization activities such as pre- and post-payment reviews. The Department reported the results of these FY 2016 actions and other required improper payment data in the "Other Information" section of the *U.S. Department of Commerce FY 2016 Agency Financial Report (AFR)*. During fiscal year (FY) 2016, the Department made approximately \$15 billion in total outlays. As a result of its ongoing improper payment monitoring, minimization, and payment recapture efforts, in FY 2016, the Department identified

¹ 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 (except for such payments where authorized by law), or (5) that does not account for credit for applicable discounts. 31 U.S.C. § 3321 note.

² Going forward, 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. See Pub. L. No. 111-204, § 2(a), 124 Stat. 2224, 2225; see also 31 U.S.C. § 3321 note. IPERIA amended the definition of "payments" to include payments to federal employees, and required OMB guidance to address payments to employees (e.g., salary, locality pay, travel pay, purchase card use, and other payments to federal employees) in risk assessments, and, where appropriate, in improper payments estimates. See Pub. L. No. 112-248, §§ 3(a)(5), 3(b)(2)(E), 126 Stat. 2390, 2391-92. In addition, IPERIA's mandated OMB guidance requires agencies to include all improper payments, regardless of whether the improper payment has been or is being recovered, in the reported improper payment estimate. *Id.* at § 3(b)(2)(D).

approximately \$4.8 million in overpayments, as well as \$5.4 million in recaptured overpayments.⁴

⁴ Amounts recaptured in FY 2016 include overpayments reported in FY 2016 and prior years.

Objectives, Finding, and Recommendation

Our review objectives were to (1) assess whether the Department complied with all applicable improper payment requirements and (2) evaluate the accuracy and completeness of its reporting, as well as its performance in recapturing improper payments. To accomplish these objectives, we focused on the Department's efforts to identify programs/activities that are susceptible to significant improper payments and to report required improper payment related information in the *AFR*. For further discussion regarding our objectives, scope, and methodology, see appendix A.

Our review found that the Department met the OMB criteria for compliance with IPIA, as described in table I (see next page). To comply with IPIA, the Department must adhere to six requirements, four of which relate specifically to programs and activities susceptible to significant improper payments.⁵ The Department reported in its *AFR* that programs and activities receiving funds under the Disaster Relief Appropriations Act of 2013 (Disaster Relief Appropriations Act) are susceptible to significant improper payments.⁶ Because the Department identified a program susceptible to significant improper payments during FY 2016, all of the OMB compliance requirements were applicable to the Department in FY 2016.

⁵ Pub. L. No. 111-204, § 3, as amended by Pub. L. No. 112-248, § 3(c)(2); see also 31 U.S.C. § 3321 note; OMB Circular A-123, appendix C, part II(A)(3). The Department is responsible for determining whether its programs and activities are susceptible to the risk of significant improper payments.

⁶ As required by the Disaster Relief Appropriations Act of 2013, Pub. L. No. 113-2, § 904(b), 127 Stat. 4, 17.

Table I. Improper Payment Requirements

Compliance Requirement	Compliance Requirement Met
Published the <i>AFR</i> and posted on agency website	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>	Yes
Published programmatic corrective action plans for all programs and activities identified as susceptible to significant improper payments in the <i>AFR</i>	Not reported ^a
Published and met annual reduction targets for each program assessed to be at risk and estimated for improper payments	Yes ^b
Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the <i>AFR</i>	Yes

Source: OIG analysis of Departmental data

^a Because the Department's testing of FY 2015 outlays under the Disaster Relief Appropriations Act did not identify improper payments that in total met the statutory thresholds required by OMB, the Department is not required to complete corrective action plans.

^b The Department's improper payment rate for FY 2015 outlays under the Disaster Relief Appropriations Act (as reported in the FY 2016 *AFR*) falls within 0.1 percent of the target set in the FY 2015 *AFR*; therefore, in accordance with OMB Circular A-123, appendix C, the Department met this compliance requirement.

In addition, our evaluation of the Department's accuracy and completeness of its reporting, as well as its performance in recapturing improper payments, revealed that the Department can improve its *AFR* reporting, as it understated improper payment estimates for the funds NOAA received under the Disaster Relief Appropriations Act (see finding I). We did not identify any findings related to the Department's FY 2016 payment recapture activities.

I. Published Improper Payment Estimates Were Understated

As stated in OMB Circular A-123, appendix C, to comply with IPERA, agencies must publish improper payment estimates for all programs and activities deemed susceptible to significant improper payments. In addition, agencies must design and implement appropriate statistical sampling and estimation methods in order to produce statistically valid improper payment estimates for the applicable programs. The Department complied with OMB's requirement to publish improper payment estimates related to its Disaster Relief Appropriations Act spending. However, our review identified that the Department understated the amount of estimated FY 2015 improper payments by at least \$20,000⁷ in the FY 2016 *AFR*.

⁷ Using the appropriate formulas listed in the plan, the OIG estimated the mean improper payments to be \$73,000, which represents a 0.07 percent improper payment rate. The Department only reported the improper payment estimate and rate of \$51,000 and 0.05 percent in the FY 2016 *AFR*.

Although the Department engaged an independent contractor to develop its Statistical Sampling and Estimation Plan and perform testing related to the Disaster Relief Appropriations Act FY 2015 outlays, we found that the improper payment estimation methodology described in the plan was not followed. The plan describes the stratified sampling design and lists the appropriate formulas for this approach that should be used to estimate the improper payments. However, the formulas listed in appendix B of the plan were not used to estimate the amount of improper payments. Rather, the contractor used a formula associated with a different sampling design approach.⁸ Employing this alternate formula was not appropriate because it did not account for differences in probabilities of selection. When asked why the methodology described in the plan was not followed, the Department noted that it did not have statistical expertise to determine whether the contractors used the formulas listed in the plan to estimate the amount of FY 2015 improper payments.

Recommendation

We recommend that the Deputy Chief Financial Officer and Director for Financial Management

- I. develop a process to ensure that the sampling methodology and formulas in future statistical sampling and estimation plans are followed, in order to accurately calculate estimated improper payments for programs deemed susceptible to significant improper payments.

⁸ The contractor selected transactions using a stratified sampling design. However, the contractor used a ratio estimation methodology formula appropriate for a simple random sampling design rather than estimating the results using formulas appropriate for a stratified sampling design.

Summary of Agency Response and OIG Comments

The Department's response to the draft report is included as appendix B of this report. Departmental management concurred with our report recommendation. We look forward to receiving the Department's corrective action plan, which will identify steps it plans to take to address the recommendation.

Appendix A: Objectives, Scope, and Methodology

Our review objectives were to (1) assess whether the Department complied with all applicable improper payment requirements and (2) evaluate the accuracy and completeness of its reporting, as well as its performance in recapturing improper payments. We reviewed Departmental processes and practices for assessing and identifying programs and activities susceptible to significant improper payments, along with the procedures in place to detect, prevent, and recapture improper payments, during FY 2016.

To accomplish our objectives, we obtained an understanding of internal control procedures and practices by

- communicating with officials in the Department's Office of Financial Management to gain an understanding of risk assessment, improper payment reporting, and payment recapture processes;
- obtaining and analyzing documents related to the FY 2016 risk assessment, improper payment reporting, and payment recapture processes—including relevant procedures, risk assessment results, summary of quarterly reporting of improper payments identified and amounts recaptured, statistical sampling and estimation plans, sampling results, and contractor reports; and
- reviewing the "Improper Payments Information Act (IPIA) of 2002, as Amended, Reporting Details" section in the AFR.

We also reviewed the Department's compliance with applicable provisions of IPIA, OMB Circular A-136 (revised October 2016), and OMB Circular A-123, appendix C, as amended by OMB Memorandum M-15-02. In addition, we assessed the reliability of the Department's FY 2016 summary of overpayments identified and amounts recaptured via discussion with Departmental officials and review of relevant documentation. We determined that the data was sufficiently reliable for this review.

We conducted our field work from January 2017 to April 2017 in Washington, DC. We performed this review under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), 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

MAY 03 2017

MEMORANDUM FOR Richard Bachman
Assistant Inspector General for Financial
and Intellectual Property Audits

FROM: Lisa Castias 
Deputy Assistant Secretary for Administration

SUBJECT: Comments on Draft Report Entitled, "*Office of the Secretary FY 2016
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 2016 Compliance with Improper Payment Requirements*," issued on April 27, 2017. I am pleased the draft report states that the Department has met the 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 agree with your recommendation on page 5 concerning the National Oceanic and Atmospheric Administration funds received under the Disaster Relief Appropriations Act. The implementation of this recommendation will improve our estimated improper payments for these funds.

Thank you for the opportunity to provide comments. If you have any questions or comments, please feel free to call me at (202) 482-4951.

011200000278