



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

# Audit of GSA's Improper Payments Performance

*Report Number A120002/B/F/F12002  
March 9, 2012*



Office of Audits  
Office of Inspector General  
U.S. General Services Administration

## REPORT ABSTRACT

### Audit of GSA's Improper Payments Performance

Report Number A120002/B/F/F12002

March 9, 2012

#### OBJECTIVE

The audit objective was to determine if GSA is in compliance with the Improper Payments Information Act of 2002 (IPIA) as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) regarding the improper payments it reported in Fiscal Year (FY) 2011.

**Finance and Information  
Technology Audit Office  
(JA-F)**  
1275 First Street, NE  
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Washington, D.C. 20417  
(202) 357-3620

#### WHAT WE FOUND

GSA has complied with IPERA for FY 2011; however, based on our review we identified the following:

Finding 1 – GSA's process for reporting the results of its payment recapture audit program need improvement.

Finding 2 – GSA's construction program was improperly excluded from the payment recapture audit program.

Finding 3 – GSA may be using an improper source of funds to reimburse the recapture audit contractor.

Finding 4 – The improper payments program management controls are insufficient.

Finding 5 – The recovery audit contract does not contain all appropriate IPERA and GSA directive references.

#### WHAT WE RECOMMEND

The Chief Financial Officer should:

1. Report the identified, recovered and outstanding amounts related to improper payments in the payment recapture audit program in a manner consistent with financial reporting requirements;
2. Improve tracking and aging of all outstanding improper payment claims;
3. Include all GSA programs and activities in the payment recapture audit program;
4. Seek clarification from OMB to ensure the proper source of funds is used to reimburse the recapture audit contractor;
5. Issue official policy providing guidance to Agency personnel regarding the reporting of improper payments and the implementation of the IPERA; and,
6. Review and modify, as necessary, the payment recapture audit contract to ensure it contains all clauses required by applicable laws, regulations and GSA orders.

#### MANAGEMENT COMMENTS

Except for finding 3, management agreed with our findings and recommendations. The CFO's complete response is presented in Appendix B.



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**Office of Audits  
Office of Inspector General  
U.S. General Services Administration**

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DATE: March 9, 2012

TO: Alison L. Doone  
Chief Financial Officer (B)

FROM: Carolyn Presley-Doss *Carolyn Presley-Doss*  
Deputy Assistant Inspector General for Finance and Information  
Technology Audits (JA-F)

SUBJECT: Audit of GSA's Improper Payments Performance  
*Report Number A120002/B/F/F12002*

This report presents the results of our audit of GSA's Improper Payments Performance. Our findings and recommendations are summarized in the Report Abstract. Instructions regarding the audit resolution process can be found in the email that transmitted this report.

Your written comments to the draft report are included in Appendix B of this report.

If you have any questions regarding this report, please contact me or any member of the audit team at the following:

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On behalf of the audit team, I would like to thank you and your staff for your assistance during this audit.

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## Introduction

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According to the U.S. Government Accountability Office (GAO), federal agencies reported an estimated \$115.3 billion in improper payments, (a decrease of \$5.3 billion from the prior year reported estimate of \$120.6 billion)<sup>1</sup> out of the approximately \$2 trillion in payments made to individuals, businesses and other entities in Fiscal Year (FY) 2011. An improper payment occurs when the funds go to the wrong recipient, the amount paid is incorrect, documentation is not available to support the payment, or the recipient uses the funds in an improper manner. Most of these improper payments are the result of inadequate recordkeeping, inaccurate eligibility determinations, inadvertent processing errors, the lack of timely and reliable information to confirm payment accuracy, or fraud.

The Improper Payments Information Act of 2002 (IPIA) was enacted to enhance the accuracy and integrity of federal payments by providing a framework that allows federal agencies to identify the specific causes of their improper payments and implement necessary solutions to reduce them. Prompted by Executive Order 13520, IPIA was amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The Office of Management and Budget issued Memorandum 11-16 (OMB M-11-16) to provide guidance to all federal agencies regarding the implementation of IPIA as amended by IPERA.<sup>2</sup> OMB M-11-16 requires agencies to review all programs and activities they administer, identify those that may be susceptible to significant erroneous payments, and take mandatory actions to reduce any erroneous payments.

This guidance also requires Offices of Inspectors General to perform annual reviews of their particular agency's improper payments reporting. These reviews are to begin in FY 2012.<sup>3</sup> These reviews are to determine the agency's compliance with IPERA and must be completed within 120 days of the agency publishing its annual financial report (AFR).<sup>4</sup> To be in compliance with IPERA an agency must: publish an annual financial report; conduct a program specific risk assessment for each of its programs or activities; issue improper payment estimates for all programs and activities; publish programmatic corrective action plans in the annual financial report; issue annual reduction targets for each program; report a gross improper payment rate of less than 10 percent for each program and activity included in its improper payments report; and report information on efforts to recapture improper payments.

Since FY 2001, GSA's effort to eliminate and recover improper payments has been managed by its Office of the Chief Financial Officer (OCFO). During this time, GSA has periodically performed comprehensive risk assessments of its internal controls over cash disbursements. In FY 2009, GSA performed its most recent comprehensive risk

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<sup>1</sup> GAO-12-405T – *Improper Payments Moving Forward with Governmentwide Reduction Strategies*, issued February 7, 2012.

<sup>2</sup> For the remainder of this report, "IPERA" will imply "IPIA, as amended by IPERA." IPIA was the authorizing legislation.

<sup>3</sup> The FY 2012 review will cover data reported for FY 2011.

<sup>4</sup> Agencies must convey the results of their IPERA reviews in its AFR.

assessment; in this assessment no programs were identified as “high-risk.”<sup>5</sup> GSA identified four medium risk programs, including: Building Operations; Reimbursable Work Authorizations; Rental of Space; and the General Supplies and Services Portfolio. Subsequently, these medium risk programs became the basis for GSA’s payment recapture audit program. In FY 2011, GSA’s recovery audit focused on Public Buildings Service (PBS) lease contracts, disbursements and utility contracts.

GSA reviews payments and transactions as part of its Continuous Monitoring Program and receives support from a contractor in examining accounts payable and contract processes used to identify overpayments and under deductions that are recoverable from commercial vendors. The payment recapture audit program works with managers to improve the efficiency and effectiveness of the recovery audit process from payment review to claim collection. In the FY 2011 AFR, GSA reported that, since FY 2004, its payment recapture audit program has identified \$178.6 million in improper payments.

## **Objective**

Our objective was to determine if GSA complied with IPIA as amended by IPERA.

See Appendix A – Purpose, Scope and Methodology for additional details.

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<sup>5</sup> GSA’s definition of “high risk” is adopted from OMB’s definition of “significant improper payments” as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

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## **Results**

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We found GSA to be in compliance with IPERA in FY 2011; however improvements in management controls are needed. GSA's continued compliance relies on strengthening management oversight and reporting its analysis of improper payments in a manner consistent with financial reporting requirements.

### **Finding 1 – GSA's process for reporting the results of its payment recapture audit program need improvement.**

GSA needs to properly define what constitutes the amounts it reports under IPERA. IPERA requires agencies to report, in their AFR, the total amount of improper payments identified for recovery, the total recovered, and the total amounts that remain outstanding. The outstanding amounts are to be tracked via an aging schedule.

In its FY 2011 AFR, GSA reported a total of \$13.5 million identified for recovery by the payment recapture audit contractor, \$11.8 million as the total actually recovered, and \$1.7 million as the total outstanding. However, GSA defined the total recovered as the total amount of improper payments that have been approved, but not necessarily collected and the total outstanding as amounts that are under review, but not necessarily approved for collection. Therefore, we are unable to determine how effective GSA has been in reducing and recapturing improper payments.

Additionally, while GSA maintains an aging schedule, we were unable to use it to derive the actual amount outstanding and the actual amount collected.

### **Recommendations 1 and 2**

We recommend the CFO:

1. Report the identified, recovered and outstanding amounts related to improper payments in the payment recapture audit program in a manner consistent with financial reporting requirements; and
2. Improve tracking and aging of all outstanding improper payment claims.

### **Finding 2 – GSA's construction program was improperly excluded from the payment recapture audit program.**

GSA did not include its construction program, one of its major programs, in its FY 2011 IPERA reporting. IPERA requires agency heads to periodically review all programs and activities that their agency administers, and identify those that may be susceptible to significant improper payments. In its most recent comprehensive risk assessment (FY 2009), GSA identified the need for strengthening controls surrounding construction payments. This was to be accomplished by expanding the review of improper payments through post-payment review and through Recovery Audit. However, GSA did not

include its construction program in its FY 2011 payment recapture audit program because, as reported in the AFR, it was subject to other reviews.

In researching what constituted “other reviews,” we were advised that the construction program’s payments are continuously reviewed by various components within the PBS and by other internal control processes. In our opinion, “other reviews” and internal control processes are insufficient justification for excluding a major agency program<sup>6</sup> from the payment recapture audit program. As required by IPERA guidance, if an Agency determines that a program should not be included in its recovery auditing program, it must provide justification and analysis for that determination within its AFR.

### Recommendation 3

We recommend the CFO include all GSA programs and activities in its payment recapture audit program.

### **Finding 3 – GSA may be using an improper source of funds to reimburse the recapture audit contractor.**

GSA used monies recovered from improper payments made through revolving funds to reimburse its payment recapture audit contractor. As part of its payment recapture audit program, GSA employed a contractor to help identify and recapture improper payments. The contractor is paid a percentage of any funds it helps recover. During FY 2011, all funds identified for recovery originated from a revolving fund specific to the Federal Buildings Fund. OMB M-11-16 requires that “[a]ny overpayments from mandatory fund accounts, trust fund accounts or special fund accounts (like revolving funds) revert to those accounts ...”. However, in FY 2011 GSA did not revert all amounts recovered but used a portion of the recovered amounts to pay the contractor. We discussed this with OMB and they concurred in our understanding of the issue.

### Recommendation 4

We recommend the CFO seek clarification from OMB to ensure the proper source of funds is used to reimburse the recapture audit contractor.

### **Finding 4 – The improper payments program management controls are insufficient.**

We observed instances in which the amounts approved for recapture by GSA’s regional offices were not used when providing the results of the payment recapture audit program in the AFR. Instead, GSA used the unadjusted gross amount of improper payments as identified by the payment recapture audit contractor for this purpose.

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<sup>6</sup> In FY 2009, GSA’s risk assessment documented that the total disbursements transactions for the new construction and acquisition program totaled \$549 million in FY 2008.



The payment recapture audit contractor reports to GSA the total amount they identified as an overpayment. GSA's internal controls include a regional review and process to approve the amounts reported by the contractor. These amounts may be adjusted depending on the supporting documentation. Not using the regional approved amounts can result in a misstatement of improper payments in the AFR.

The Chief Financial Officers (CFO) Act requires Agency CFOs to develop and maintain financial reporting and internal controls. These internal controls should provide for complete, reliable, consistent, and timely information that is prepared on a uniform basis.

#### Recommendation 5

We recommend the CFO issue official policy providing guidance to Agency personnel regarding the reporting of improper payments and the implementation of the IPERA.

#### **Finding 5 – The recovery audit contract does not contain all appropriate IPERA and GSA directive references.**

The payment recapture audit contract does not include a required clause calling for the contractor to report credible evidence of potential fraud or related vulnerabilities. Without this clause, contractors cannot be charged with negligence should they fail to report instances of such problems to GSA and GSA's OIG. IPERA guidance states that the payment recapture audit contract shall include a clause requiring the contractor to report credible evidence of potential fraud or vulnerabilities to fraud to the agency and the agency's OIG. The contractor is also required to provide appropriate training to contractor personnel on the identification of potential fraud.

Also, we noted that although the contract references the need to perform National Agency Check and Inquiries Credit investigations on contractor personnel, it does not specifically cite chapter six of GSA ADM P 9732.1D<sup>7</sup> as required. This chapter must be referenced in all contracts which use the services of contract employees. Additionally, it provides specific guidance to contracting officers for requesting investigations and actions by the security office. By not citing this directive, GSA has no assurance that the recapture audit contract employees have suitable clearances to access GSA's information systems and data.

#### Recommendation 6

We recommend the CFO review and modify, as necessary, the payment recapture audit contract to ensure it contains all clauses required by applicable laws, regulations and GSA orders.

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<sup>7</sup> GSA ADM P 9732.1D – *Suitability and Personnel Security*.

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## **Conclusion**

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We have determined, based on our test work, that GSA has complied with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010. However, GSA's payment recapture audit program needs additional management oversight and guidance to ensure the integrity of the program.

### **Management Comments**

The Chief Financial Officer expressed general agreement with our findings and recommendations. However, the CFO disagreed with finding 3 and plans to contact OMB to discuss the issue further. We modified recommendation 4 to allow GSA to consult with OMB. Management's comments are included, in their entirety, as Appendix B to this report.

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## **Appendix A – Purpose, Scope, and Methodology**

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Report Number A120002/B/F/F12002

### **Purpose**

This audit was included in the GSA OIG annual audit plan for FY 2012 in compliance with requirements of the Improper Payments Information Act of 2002 (IPIA) as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for FY 2011.

### **Scope**

The audit reviewed GSA's improper payments program for FY 2011.

### **Methodology**

To accomplish our objectives, we:

- Reviewed the following:
  - Prior audits related to improper payments issued by the Government Accountability Office (GAO), GSA Office of Inspector General (OIG), and other federal agencies OIGs;
  - Public Laws, Executive Orders, Office of Management and Budget Memoranda and GAO guidance, and GSA directives, internal procedures and policies;
  - GSA's:
    - FY 2009 Improper Payments Integrity Act Report;
    - Risk Assessment of FY 2008 Disbursements Report;
    - FY 2011 Payment Recapture Audit Plan;
    - FY 2011 Agency Financial Report, including supporting documentation provided by management for reported amounts;
    - Report on Results of the Payment Recapture Audit for FY 2011; and,
    - The aging schedule for outstanding payment recapture claims;
  - Supporting documentation for:
    - GSA's FY 2009 Risk Assessment; and,
    - GSA's FY 2011 Agency Financial Report;
  - Acquisition reviews performed by the Office of Acquisition Services;
  - A random sample of improper payment claims;
  - Statement of Work documentation related to the payment recapture audit contractor; and,
  - Organizational structure for the improper payments program;
- Conducted meetings or corresponded with:
  - GSA Improper Payments Personnel;
  - PBS Audit Liaison;
  - GAO/IG Audit Response Division; and,
  - OMB counsel;
- Obtained:
  - Access to the OMB Max Information System; and,

- An understanding of the agency's pre-payment continuous monitoring process;
- Used guidance provided by the Council of Inspectors General for Integrity and Efficiency (CIGIE); and,
- Attended training opportunities provided to federal agencies relevant to improper payments.

We conducted the audit between October 2011 and January 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Internal Controls**

We limited our assessment of internal controls to those related to the OCFO's improper payment recapture audit program. We reviewed the OCFO's procedures and processes to assess compliance with IPIA and IPERA; the improper payments contract for recapture audit services; and financial documentation to assess the effectiveness of the controls. Based on our review we made recommendations to strengthen and improve the controls discussed in the Results section of this report.

## Appendix B – Management Comments

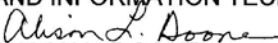
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GSA Office of the Chief Financial Officer

MAR 6 2012

MEMORANDUM FOR CAROLYN PRESLEY-DOSS  
DEPUTY ASSISTANT INSPECTOR GENERAL FOR FINANCE  
AND INFORMATION TECHNOLOGY AUDITS (JA-F)

FROM:   
ALISON L. DOONE  
CHIEF FINANCIAL OFFICER (B)

SUBJECT: GSA Response to OIG Draft Report, *Audit of GSA's Improper Payments Performance Report #A120002*

Thank you for the opportunity to provide comments to the above draft report. We appreciate your efforts to evaluate the performance of the GSA improper payment program. Attached is management's response to your findings and recommendations.

If you have any questions, please contact Alexis Stowe at (202) 501-0562 or [alexis.stowe@gsa.gov](mailto:alexis.stowe@gsa.gov).

Attachment

U.S. General Services Administration  
1275 First Street, NE  
Washington, DC 20417  
[www.gsa.gov](http://www.gsa.gov)

**GSA RESPONSES TO OIG DRAFT REPORT:  
Audit of GSA's Improper Payments Performance  
Audit Number A120002  
March 5, 2012**

**Finding 1 – GSA's process for reporting the results of its payment recapture audit program needs improvement.**

**Recommendation 1** - Report the identified, recovered and outstanding amounts related to improper payments in the payment recapture audit program in a manner consistent with financial reporting requirements

**OCFO Response:** Management agrees. OCFO is evaluating the presentation of the identified, recovered, and outstanding improper payment amounts to be reported in the FY 2012 Agency Financial Report to ensure compliance with the financial reporting requirements in OMB Circular A-136.

**Recommendation 2** - Improve tracking and aging of all outstanding improper payment claims.

**OCFO Response:** Management agrees. OCFO is developing a procedure to reconcile improper payment claim amounts, on a quarterly basis, from contractor records, GSA's aging schedule, and Pegasys. All reconciling items will be identified and explained.

**Finding 2 – GSA's construction program was improperly excluded from the improper payment recapture audit program**

**Recommendation 3** – Include all GSA programs and activities in the payment recapture audit program.

**OCFO Response:** Management agrees. Pending the outcome of the FY 2012 risk assessment that will be effective FY 2013, GSA will include construction payments in its FY 2012 payment recapture audit program.

**Finding 3 – GSA is using an improper source of funds to reimburse the recapture audit contractor.**

**Recommendation 4** – Comply with OMB requirements by ensuring the proper source of funds is used to reimburse the recapture audit contractor.

**OCFO Response:** Management disagrees. Recoveries in FY 2011 were from the Federal Buildings Fund (FBF). The FBF is a discretionary fund account, not a mandatory fund account, and is subject to the annual appropriations process. FBF annual appropriations are received through new obligational authority. Therefore, FBF funds were used to compensate the contractor in accordance with the Improper Payments Elimination and Recovery Act of 2010 which allows such payments from discretionary appropriations. We will discuss proper funding sources with OMB.

**GSA RESPONSES TO OIG DRAFT REPORT:  
Audit of GSA's Improper Payments Performance  
Audit Number A120002  
March 5, 2012**

**Finding 4 – Improper payments program management controls are insufficient.**

**Recommendation 5** - We recommend the CFO issue official policy providing guidance to Agency personnel regarding the reporting of improper payments and the implementation of the IPERA.

**OCFO Response:** Management agrees. OCFO will evaluate the presentation of the identified, recovered, and outstanding improper payment amounts to be reported in the FY 2012 Agency Financial Report to ensure compliance with the financial reporting requirements in OMB Circular A-136. Policy will be developed based on the outcome of that evaluation.

Since the inception of the improper payment program in 2004 under the IPIA provisions, GSA has been consistent in recording the dollar amounts of approved improper payment claims as receivables and maintaining an aging schedule for them.

**Finding 5 – The recovery audit contract does not contain all appropriate IPERA and GSA directive references.**

**Recommendation 6** - We recommend the CFO review and modify, as necessary, the payment recapture audit contract to ensure it contains all clauses required by applicable laws, regulations and GSA orders.

**OCFO Response:** Management agrees. GSA will modify the recovery audit contract to include all clauses required by applicable laws and regulations, including chapter six of GSA ADM P 9732.1D. Although not specifically mentioned in the contract, the contractor is fully aware of its responsibilities to report fraud or vulnerabilities that could lead to fraud to the OIG and to provide training to their personnel regarding fraud. In addition, OCFO and the contractor notify GSA regional staff at the entrance conference of their obligation to report fraud. Furthermore, the GSA payment recapture audit contract does reference GSA security requirements for contracting personnel. The Statement of Work related to the payment recapture contract includes the provision for necessary security clearances and IT training among other requirements. Thus, the security section in the contract meets the requirements of ADM 9732.1D, and this provides reasonable assurance that payment recapture contractors have suitable clearances to access GSA's information systems and data.

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## ***Appendix C – Report Distribution***

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Chief Financial Officer (B)

Director of Financial Policy and Operations (BC)

Director, Internal Control Division (BCB)

Audit Liaison, Office of the Chief Financial Officer (B)

Division Director, GAO/IG Audit Response Division (H1C)

Assistant IG for Auditing (JA)

Deputy Assistant IG for Investigations (JID)

Director, Audit Planning, Policy, and Operations Staff (JAO)